Annual Report 2014
HSBC Trinkaus & Burkhardt Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2014	2013	Change in %
Results in €m			
Operating revenues	686.7	703.0	−2.3
Net loan impairment and other credit risk provisions	4.0	10.9	−63.3
Administrative expenses	494.0	486.2	1.6
Pre-tax profit	213.6	219.1	−2.5
Tax expenses	67.1	63.8	5.2
Net profit	146.5	155.3	−5.7
Balance sheet figures in €m			
Total assets	22,177.8	19,809.7	12.0
Shareholders' equity	1,916.4	1,453.7	31.8
Ratios			
Cost efficiency ratio of usual business activity in %	69.4	67.9	–
Return on equity before tax in %	14.4	16.5	–
Net fee income in % of operating revenues	56.7	57.0	–
Funds under management and administration in €bn	193.6	149.2	29.8
Employees	2,650	2,527	4.9
Share information			
Number of shares issued in million	34.1	28.1	21.4
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	5.21	5.53	−5.8
Share price as at 31.12. in €	70.00	84.80	−17.5
Market capitalisation in €m	2,386.2	2,383.5	0.1
Regulatory ratios*			
Tier 1 in €m	1,568.6	1,303.9	20.3
Regulatory capital in €m	1,957.1	1,638.5	19.4
Risk-weighted assets in €m	15,055.0	11,125.0	35.3
Tier 1 ratio in %	10.4	11.7	–
Regulatory capital ratio in %	13.0	14.7	–

* Following confirmation of the balance sheet

Annual Report 2014

HSBC Trinkaus & Burkhardt

Date of issue: April 2015

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info@hsbc.de www.hsbc.de

Contents

Ladies and Gentlemen,

The 2014 financial year was dominated by our growth initiative launched in mid-2013, which focuses on expanding HSBC Trinkaus & Burhardt's position as the leading bank for internationally oriented corporate clients. As part of this initiative, we are extending our target clientele to include internationally operating corporate clients with an annual turnover of more than €35million and private equity houses. The central elements of this strategy are a broader product offer, stronger international cooperation in the HSBC Group and an adjusted appetite for risk in accordance with the increase in shareholders' equity. Our goal is to become the core bank for a greater number of clients.

However, the market environment presented banks with challenges in 2014. The global economy continued to recover, but remained far away from the growth rates seen before the crisis. In the Eurozone, the trend was mixed but even Germany, the driving force to date, lost momentum temporarily. The historically low level of interest rates, weak credit demand, the growing competition in particular from foreign banks penetrating the German market as well as the increase in regulatory controls were and remain important challenges.

Despite this starting situation, the launch of the growth initiative may be described as a success. Over 300 of the 500 new staff positions planned have already been filled. The four new branches in Dortmund, Hanover, Mannheim and Nuremberg have started business operations together with the corporate banking team in the Cologne branch, and numerous product launches have enabled us to establish additional client relationships. The growth initiative is on schedule, and we are growing exactly where we wanted to, generating further business volume and market shares in the Corporate Banking and Global Markets divisions. There was significant growth in particular in the lending business, which bucked the general market trend.

The growth is reflected in our results. Despite the high start-up costs for the implementation of the growth initiative and the discontinuation of business activities in Luxembourg, the Bank generated a pre-tax profit of

€213.6million, which was only slightly lower than the prior-year level (2013: €219.6million). Net profit was down by 5.7 % to €146.5million.

The regulatory capital ratio declined slightly in the latest financial year from 14.7 % to 13.0 % owing to higher capital requirements and increased risk-weighted assets. The Tier 1 capital ratio is 10.4 %. HSBC Trinkaus & Burkhardt is therefore in a very strong capital position for further growth and also well equipped for the future regulatory requirements. In the light of this 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 new shares from the capital increase at the beginning of October 2014 are only entitled to dividend payments from the 2015 financial year.

We gear our strategy towards the long term. Our growth initiative differs clearly from the many MME-oriented offensives launched by other banks in that it has a targeted focus on internationally operating clients. For these clients the global network of the HSBC Group entails a unique offer in this form: competence in global financial products and local presence – above all in the world's important growth markets. On the other hand, we are firmly rooted in Germany with a history going back 230 years. The diversified business model based on continuity, targeted further development and clear client orientation is paying off. We concentrate on our core business and have for this reason also discontinued our business activities in Luxembourg. The cooperation between the business divisions has been strengthened further: the Global Markets team supports the corporate banking business with its own specialists in the local branches and the business potential has also been realised successfully by establishing closer links between Private Banking and the corporate banking business.

The year ahead will also present challenges: within the Bank, the implementation of the growth strategy will lead to significantly higher staff and material expenses in many areas and the technical requirements will also be higher. The growing regulatory control of the banking sector will have a considerable impact on the business models of all banks.

Nevertheless, the outlook for 2015 is also promising with a view to the optimism among German companies, a consumer-friendly environment and further stimulating factors for the German economy. We want to take advantage of our opportunities.

We would like to thank our employees in particular for their constructive cooperation and outstanding commitment in implementing the growth initiative. This applies to both experienced staff members, who carried the main burden at the beginning, and to the many new colleagues who were fully challenged from their first day on. The fact that the process of change has gone so smoothly is due not least to their efforts and proof that our employees identify with the Bank. But it also shows the outstanding professional and social skills of our staff who we can rely upon at all times. HSBC Trinkaus & Burkhardt attaches major importance to the advanced training and development of our employees, be it through internal training courses using Group-wide e-learning tools, external seminars or international placements. The Düsseldorf Chamber of Commerce and Industry has presented us with an award for our professional training services for the eighth time in succession.

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

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 Dortmund Frankfurt am Main Hamburg Hanover Cologne Mannheim Munich Nuremberg Stuttgart

HSBC Trinkaus & Burkhardt AG is an internationally-networked, client-oriented commercial bank. Our positioning among the German banks is unique in this form: as HSBC in Germany we are part of one of the world's largest banking groups and at the same time firmly rooted in Germany with a tradition going back 230 years.

HSBC was established in 1865 as Hongkong & Shanghai Banking Corporation to promote trade between Asia and Europe. It operates today in 74 countries and regions with 250,000 employees and around 6,200 branches world-wide and has more than 52 million clients. The focus is on the world's fast-growing markets: in Asia, Latin America, the Middle East and North America, HSBC is the largest foreign bank with national experts and large branch networks. HSBC is represented in the 60 most important cities with over 160 branches in China alone. This network puts HSBC in the position not only to enable companies to enter the growth markets of tomorrow, but also to continue to provide them with a comprehensive local service.

Executive Committee


Dr. Christiane Lindenschmidt
Dr. Rudolf Apenbrink


Stephen Price
Dr. Jan Wilmanns

HSBC is represented in twelve locations in Germany. With the focus on our target groups – corporate clients (internationally oriented MMEs, large corporate clients and multinationals), institutional clients in Global Banking & Markets and high net worth private clients, the Bank has a sustainable and diversified business model. As the German unit of the HSBC Group, we are still the highest rated private commercial bank in Germany with a 'AA- Stable' Fitch rating. The aim of our growth strategy is to position ourselves as the 'Leading International Bank' in Germany by enlarging our client base, above all in the corporate banking business, extending our product offer, increasing our appetite for risk in accordance with the increase in shareholders' equity and offering the HSBC global network on a broader scale. Our strength gained from international connectivity and our expertise in cross-selling transactions open up growth opportunities for us to become core bank for even more clients.

We have undertaken to maintain the highest standards worldwide with respect to regulatory and statutory provisions in the HSBC Group. By introducing 'Global Standards' HSBC has initiated a programme to avoid financial criminality which enables our employees to assess risks comprehensively and make the right decisions in keeping with our values and business principles. The 'Know your customer' principle and acting in the interests of the client are of the highest priority here. We want our comprehensive corporate governance to meet society's demands. The trust that is placed in us is expressed in our client satisfaction, which has won several awards, and the low fluctuation in our workforce. Our reputation is based upon our corporate culture and 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

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

Alan Keir
Group Managing Director EMEA &
Chief Executive Officer,
HSBC Bank plc, London

Simon Leathes
Non-Executive Director,
HSBC Bank plc, London

Friedrich Merz
Lawyer, Düsseldorf

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 Executive Directors,
Landesbank Baden-Württemberg, Stuttgart

* elected by the employees

As at: 31 December 2014

Supervisory Board Committees

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

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

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

Alan Keir
Group Managing Director EMEA &
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

Simon Leathes
Non-Executive Director,
HSBC Bank plc, London

Deputy members:

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Friedrich Merz
Lawyer, Düsseldorf

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

Simon Leathes
Non-Executive Director,
HSBC Bank plc, London

Deputy members:

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Friedrich Merz,
Lawyer, Düsseldorf

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

* elected by the employees

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

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

Alan Keir
Group Managing Director EMEA &
Chief Executive Officer,
HSBC Bank plc, London

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

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

Alan Keir
Group Managing Director EMEA &
Chief Executive Officer,
HSBC Bank plc, London

* elected by the employees

Advisory Board

Friedrich Merz, Chairman
Lawyer

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

Dr. Olaf Berlien
Chairman of the Managing Board,
OSRAM Licht AG

Christian Brand (until 30 June 2014)
former Chairman of the Management Board,
L-Bank

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

Heinrich Deichmann
Chairman of the Board of Directors,
Chairman of the Managing Directors,
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

Bernd Franken (from January 2015)
Managing Director,
Nordrheinische Ärzteversorgung,
Einrichtung der Ärztekammer Nordrhein

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

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

Stephan Gemkow (from February 2014)
Chairman of the Board of Executive Directors,
Franz Haniel & Cie. GmbH

Dr. Marc Heußinger
Chairman of the Board of Administration,
Unternehmensgruppe ALDI-Nord

Harold Hörauf
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

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

Dr. Olaf Huth
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

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

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

Ulrich Leitermann (from March 2014)
Chairman of the Board of Executive Directors,
SIGNAL IDUNA Gruppe

Thomas Löhning
Managing Director,
Versorgungswerk der Architektenkammer NRW

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

Udo van Meeteren

Jürgen Meisch (until 31 December 2014)
former 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

Dr. Axel Nawrath (from September 2014)
Chairman of the Board of Executive Directors,
L-Bank

Werner Nicoll
Member of the Management Board,
ARAG SE

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

Hartmut Retzlaff
Chairman of the Board of Executive Directors,
STADA Arzneimittel AG

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

Klaus Schäfer (from March 2014)
Member of the Management Board,
E.ON SE

Dr. Ulrich Schröder
Chairman of the Board of Executive Directors,
KfW Bankengruppe

Dr. Botho von Schwarzkopf
Chairman of the Shareholders' Committee,
Pfeifer & Langen Industrie- und Handels-KG

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

Group Management Report

The Foundations of the Group

The Group business model

Structure and management

The HSBC Trinkaus & Burkhardt Group currently comprises a group of 13 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 Real Estate GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
	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. 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 legal independent 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. Christiane Lindenschmidt, Dr. Rudolf Apenbrink, Mr. Stephen Price and Dr. Jan Wilmanns as members of the Executive Committee. The assignment of responsibilities in the following organisational chart applies not only to the parent company and its branches, but also to the subsidiaries.

Management Board

Andreas Schmitz
Chairman of the Management Board

- Global Private Banking
  Andreas Schmitz
- Commercial Banking
  Stephen Price
  Executive Committee
- Functions A
  Andreas Schmitz
  – Compliance Functions
  – Communications
  – Human Resources
  – Internal Audit
  – Legal
  – Strategy & Planning

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

Norbert Reis
Management Board

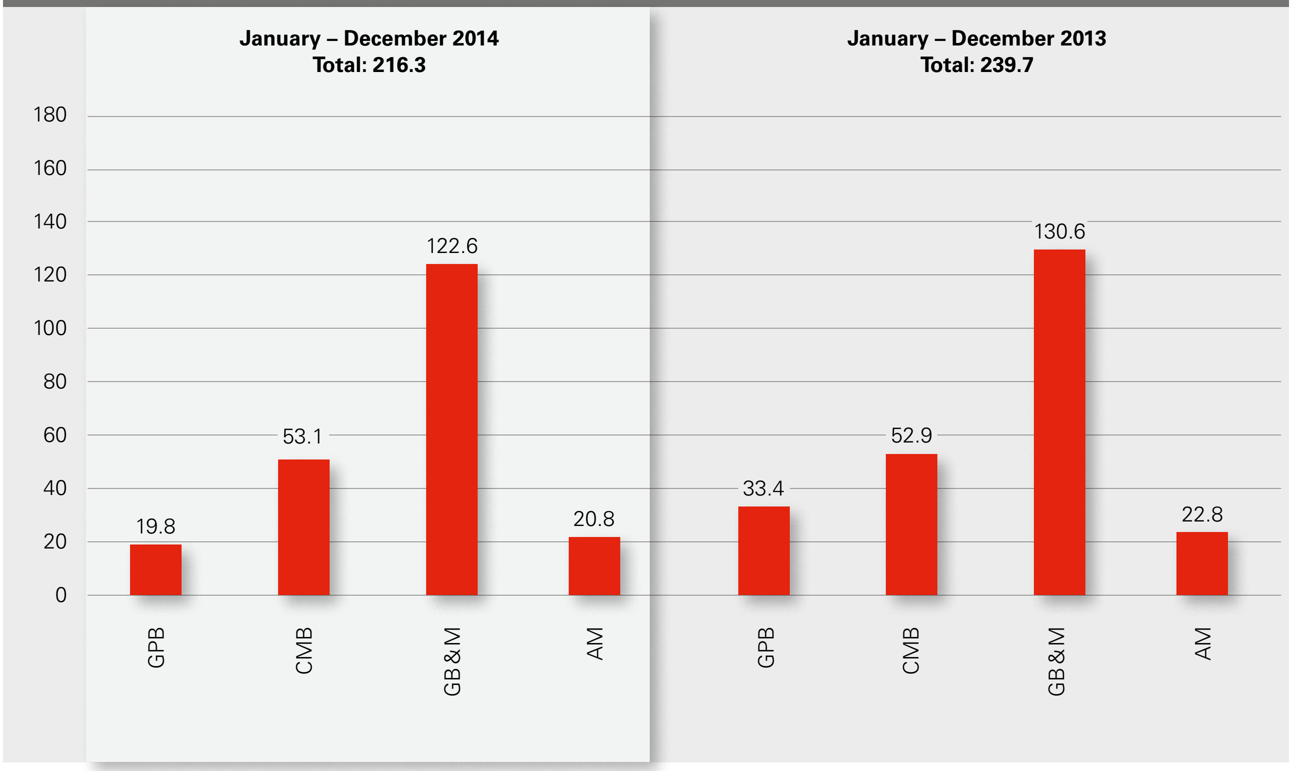
- Global Banking
  Norbert Reis

Paul Hagen
Management Board

- Functions B
  Paul Hagen
  – Finance
  – Risk
- 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 Global Private Banking (GPB), Commercial Banking (CMB), Global Banking & Markets (GB&M) and Asset Management (AM) divisions correspond to the global organisational structure of the HSBC Group. 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

The HSBC Trinkaus & Burkhardt Group again showed in the latest financial year that the diversified business model based on continuity, targeted further development 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 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, the Bank 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 and its solid foundations.

We want to use this position of strength to meet the difficult, changing general setting in the banking market: firstly, the extremely low interest rate environment in historical terms is putting considerable pressure on banks in respect of their operating earnings power; secondly, we will permanently have to deal with only moderate economic growth in Germany. Growth of 1.0 to 1.6 % p.a. is assumed for 2015 and 2016 provided no exogenous shocks have an impact, such as an economic slump in the emerging markets, geopolitical tensions or the worsening of the crisis in the Eurozone. This weak growth momentum also has consequences for the banking landscape; this is of significance above all for HSBC Trinkaus & Burkhardt's traditionally strong business with financial institutions and the Global Markets business.

The growing regulatory control of the banking sector has already led in recent years to many new provisions with a considerable impact on business models in the banking sector, and this will continue. A business model strongly geared towards the securities and derivatives business, like that of HSBC Trinkaus & Burkhardt, will have to be adjusted here. The structural changes to the competitive environment do not remain without consequences for our operating business either: the loss of confidence in the banking sector 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 significantly.

Based on the various changes in the banking environment, we have already been taking strategic measures to optimise our business orientation for some time. This includes the reduction of non-core business, including the discontinuation of the real estate fund business, the discontinuation of certain activities in 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. Our growth initiative is of particular importance here. Its key points are:

- the expansion of our client base in the corporate banking business (internationally oriented MMEs and large multinational corporate clients)
- a more comprehensive service offer
- stronger international cooperation in the HSBC Group and
- 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 while maintaining our existing strengths. The focus is on expanding our position as the leading bank for internationally oriented corporate clients in close cooperation with the HSBC Group, whose international network is of particular importance here. The implementation of the growth initiative has started as planned: in a banking market growing by only 1 %, we have been able to show significant growth in business volume and have gained market shares in both the corporate banking business and in the Markets segment.

Part of the initiative is to extend the current target clientele to include internationally operating corporate clients with an annual turnover of more than €35million and private equity houses. Our clients' requirements are to be fulfilled by a broader product offer: Payments and Cash Management, Trade and Receivables 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 will also succeed in playing a greater role with respect to capital market-oriented products such as bond issues, IPOs, capital increases, promissory note loan issues or refinancing and will therefore continue to strengthen our major expertise already available in this area. The goal is to become core bank for more clients. HSBC Trinkaus & Burkhardt is also closer to its clients geographically now 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 MME-oriented offensives launched by other banks in that it has a 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 have further strengthened the cooperation between the business divisions. Our Global Markets team is supporting the growth in the corporate banking business in particular through its expertise in the foreign exchange and derivatives business and is now represented by members in the branches in order be able to meet the local servicing requirements directly. The business potential we were expecting from closer cooperation between Global Private Banking and the corporate banking business has been realised successfully.

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 rationalisation 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 & Burkhardt 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 & Burkhardt's control system is geared towards the following ratios with respect to the analysis of the strategic success factors and the decisions over efficiency, profitability, liquidity and risk 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 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

The global recovery continued overall in 2014, but the world economy still remained far away from the growth rates seen before the crisis. Even the relatively solid GDP growth in China was not enough to breathe new life into the global economy. Japan even fell back into recession most recently. The Japanese government is now trying to combat the sluggish growth by implementing monetary and fiscal policy measures. After getting off to a poor start to the year owing to the weather conditions, the US economy is in a better position than in the previous year in the meantime. The step-by-step recovery on the US labour market is boosting private consumption. In the Eurozone, the trend remains mixed, though. While the reforms introduced in recent years are having a positive impact in Spain in particular and the country is benefiting from its increased competitiveness, hardly any growth impetus is coming from France, and primarily only from government demand. Germany, the driving force in the Eurozone to date, also lost momentum, although it was able to avoid falling back into recession in the middle of the year. Overall, the German economy grew by a solid 1.6 % in 2014, after only 0.2 % the previous year, due among other things to a strong fourth quarter.

While the German economy still got off to a thoroughly promising start in 2014 thanks to the favourable weather conditions, growing signs of weakness appeared towards the middle of the year. The geopolitical tensions resulting from the Russia-Ukraine conflict created major uncertainty among companies. At the same time, the low demand from important trading partners, such as France, depressed export activity. The resulting subdued prospects overall, just average capacity utilisation and low sales price expectations on the part of the companies led to restraint in respect of new investments, despite the still excellent financing terms, which proved to be an obstacle to German growth in 2014. Unless there is a significant revival in global trade, there is a risk that investments will remain a negative factor in 2015 as well. However, companies are not planning to cut jobs so far, despite the pronounced pessimism over the course of the year. On the contrary: at over 43million the number of persons in employment is also on a record high, as is the number of open positions. The prevailing shortage of skilled labour means that companies are hesitant to lay off staff. Together with low inflation, the favourable situation on the labour market in Germany is creating a consumer-friendly environment. Private consumption should therefore also represent the most important pillar for the German economy in 2015 as well and make a substantial contribution to the GDP growth of 1.3 % expected for 2015.

Low inflation, which benefited above all from the sharper fall in the oil price in the second half of the year, has led to robust private consumption not only in Germany, but also in the entire Eurozone. The labour market in the single currency region remains weak, but at least those countries that reformed their labour markets in recent months benefited from a reversal of the trend in the unemployment rate over the course of the year. As in Germany, though, the recovery is being impeded by a lack of new investments and weak international business as a result of which the economy in the Eurozone is again likely to have grown by only a modest 0.9 % in 2014. The depreciation of the euro versus the US dollar should bear fruit in the year ahead and help to propel growth to around at least 1.2 %. However, the growth momentum will therefore remain too weak to significantly reduce the underutilisation of the labour market and see to lasting pressure on prices in 2015 as well. Following an increase in prices of only 0.4 %, inflation is likely to continue to fall way short of the central bank's target at an average of –0.5 % in 2015. The low level of inflation will therefore remain the ECB's main concern in 2015 too. The central bank has already taken comprehensive measures to counteract the deflationary tendencies and boost the declining volume of lending. In addition to two key interest rate cuts, a negative deposit facility rate was also introduced over the course of the year. The central bank is also offering liquidity in the form of targeted tender transactions and is trying to inflate its balance sheet by €1trillion overall with the help of ABS and covered bond purchases; it has already announced government bond purchasing for March 2015. In many Eurozone countries yields on ten-year government bonds have already fallen to new record lows with a view to the expected quantitative easing, and the ECB is likely to prevent a lasting increase in yields in 2015 as well.

Overall, therefore, the monetary policy being pursued by the ECB is moving further and further away from that of the Fed or the Bank of England. For example, the US central bank recently stopped its bond buying programme thanks to better utilisation of the labour market and has therefore shifted the focus to the approaching date of a first interest rate increase. However, there is no reason for hasty measures with a view to the only moderate price inflation in the USA as well, and we are therefore not expecting the Fed Funds rate to be increased for the first time until the third quarter of 2015. At 2.5 % the ten-year yield in the USA should turn out to be scarcely higher than in 2014. The pending monetary tightening does not threaten to put an end to the good sentiment on the stock markets. The Bank of Japan should also see to high levels of liquidity alongside the ECB.

Developments in the banking sector

In this economic setting, the low level of interest rates, weak credit demand, the growing competition and the increase in regulatory controls remain major challenges for the German banking landscape.

- The ECB lowered the key interest rate in the 18 Eurozone states to a record low of 0.15 % in June followed by a further reduction to 0.05 % 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 2015 as well.

- At around €970.3billion, the volume of loans to companies and self-employed professionals was only 0.4 % higher than in the previous year in the first nine months of 2014. This reflects the weak propensity to invest on the part of the companies on the one hand, but also strong internal financing on the other. Listed companies used their access to the capital market and the volume of corporate bonds outstanding rose by around 5.1 % from the beginning of the year to over €233billion in September. Overall the financing conditions for companies remain favourable. This is met by a growing tendency on the part of the banks, propelled by the ECB, to grant loans, with direct consequences for the competition and therefore price structures in the sector.

- More and more foreign banks have identified Germany as 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 MME clients – is also putting pressure on profitability as it is hardly possible to pass on the costs to the clients.

- Stricter regulation of the financial sector, which requires that each institution examines its business model and adjusts rising costs to the lower level of earnings under the regulatory conditions, remains of major significance. Regulatory costs for the banks, above all in the area of IT, are enormous and can only be planned with difficulty.

- 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 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. 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 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.

The HSBC Trinkaus & Burkhardt Group in the current environment

We are convinced that HSBC Trinkaus & Burkhardt is well positioned in the current market environment. In this setting, we can use our position of strength 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 and its implementation status in detail in the chapter 'Overview of our Strategy'.

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

- We concentrate on the target groups of MME and global corporate clients, institutional clients and high net worth 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 management company (Master-KVG). Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank services and global custody services as well as in asset management with HSBC Global Asset Management (Deutschland) GmbH.

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the range of powerful products and the networks in over 70 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.

- 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 from the point of view of performance and conduct.

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

Business performance and situation

Profitability

The HSBC Trinkaus & Burkhardt Group generated pre-tax profit of €213.6million in the 2014 financial year (2013: €219.1million). This represented a slight decline of €5.5million, or 2.5 %, in line with the prior-year forecast. Net profit for the year of €146.5million was 5.7 % or €8.8million lower than the prior-year figure of €155.3million.

Our business performance was influenced substantially last year by the implementation of the growth strategy in the corporate banking business and the discontinuation of certain activities in Luxembourg.

The Bank again showed in the latest financial year that the diversified business model based on continuity and clear client orientation continues to pay off.

The development of the individual items of the income statement is described in the following sections. Please see the Note 'Customer Groups' in the notes to the consoldidated financial statements for the development of the results of the individual segments.

Net interest income increased, thanks to the success of the growth initiative, by €8.9million overall to €174.7million. This clearly more than compensated for the effects of the decline in net interest income in a year-on-year comparison as a result of the significant reduction in the share of earnings from the business in Luxembourg and the lower interest income from fixed-income securities holdings.

Interest income in the lending business improved substantially owing to the increase in business volumes. Margins in the lending business declined further compared to the previous year with the same credit ratings. Income from longer-term loans as well as from the receivables finance business developed very well owing to significantly higher volumes; both areas of business are key focal points of the growth initiative.

Net interest income from deposit-taking operations remains under major pressure. Margins deteriorated again on slightly higher volumes due to the central bank interest rate policy and a positive interest margin can longer be achieved in the Bank's deposit-taking business. We see the still high level of deposits by our clients as evidence of the confidence they place in the Bank. So far, we have not passed on the burden of negative interest rates to our clients, but are following the trend in the market very closely.

Net interest income from financial assets continued to fall on the other hand. Bullet bonds with a comparable risk profile could only be replaced by others with significantly lower coupons in the 2014 market environment. We have maintained our strict rules for the quality of the assets. In general, credit spreads, i.e. the risk premiums for different issuers versus Bundesanleihen, narrowed significantly.

After net loan impairment and other credit risk provisions of €10.9million the previous year, this item came to €4.0million in the 2014 financial year. Individually assessed impairments featured new provisions of €0.1million as well as reversals of €0.8million while collectively assessed impairments required a net addition of €4.7million. The higher portfolio valuation allowance is due essentially to the higher lending volume generated in the course of our growth strategy as well as to the slight change in the portfolio structure. For the changes in estimates regarding the calculation of the collectively assessed impairments required in the wake of the growth strategy, please see the Note 'Change in Accounting Policies'.

Our conservative orientation is unchanged in relation to the assessment of default risks.

Net fee income of €389.7million was down slightly compared to the prior-year figure of €401.1million. After adjusting net fee income the previous year for the contributions made by the Luxembourg unit, there was an increase of 1.7 %.

In the traditional securities 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, which is reflected in the €5.9million decline in net fee income in the securities business. Revenues in the fixed-income business with institutional clients were below the prior-year figure as lower returns mean that our clients' medium-term investment goals are not being met. Our Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) subsidiary again reported volume and revenue growth in the fund business.

At €85.1million (2013: €92.6million), the result generated in the fee-based business with foreign exchange and derivatives was down by €7.5million. This is attributable to the fact that the fluctuations on the foreign exchange markets remained within narrow limits for a large part of the year as a result of which our clients had only low hedging requirements. 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. This is of growing importance given that margins are declining.

We were able to significantly improve our results in the lending business again and therefore continue with our growth in the Corporate Banking segment in the profitable fee-based business as well. Net fee income increased by €5.7million to €28.7million.

The result in the issuing and structuring business improved by €4.6million compared to the previous year to €14.8million. This reflects the Bank's still strong market position as lead manager with respect to new bond issues as well as the high level of activity on the part of our clients to optimise their refinancing structure with interest rates on a historically low level.

Our net fee income generated by supporting clients during fund-raising transactions of €8.7million was significantly lower than the prior-year figure of €13.2million.

Alternative investments have established themselves as their own asset category above all for institutional investors, but also for corporate clients and high net worth private clients. Net fee income improved significantly in the second half of the year, but was down slightly in a year-on-year comparison to €10.9million (2013: €11.9million).

Due not least to the change in our business orientation in Luxembourg, net fee income from the international business and payments declined slightly.

Net trading income rose by €11.6million to €107.3million (2013: €95.7million). Excluding the net trading income of the Luxembourg unit the previous year, there was an increase of 22.4 %.

There was a further improvement in net income from trading with bonds and interest rate derivatives (+5.3 %) as well as equities and equity/index derivatives (+21.6 %). Foreign exchange trading recorded a sharply lower result of €2.1million (2013: €6.2million), due not least to the discontinuation of revenues from Luxembourg, while the result from trading with derivatives held in the banking book improved significantly to €1.1million (2013: €–3.2million).

Administrative expenses rose by €7.8million, from €486.2million to €494.0million. After adjusting administrative expenses the previous year for the contributions from the Luxembourg unit, there was an increase of 20.4 % due to investments in staff and material resources as part of the growth initiative.

While staff expenses were up by €15.1million compared to the previous year, other administrative expenses were reduced by €0.9million and write-downs by €6.4million. The significant increase in the number of employees in the financial year is also reflected in an increase in staff expenses, despite the substantial decline in staff expenses in Luxembourg.

In contrast, other administrative expenses were below the prior-year level. Higher costs in connection with the growth initiative were more than compensated in 2014 by far lower expenses in Luxembourg, which were particularly high the previous year owing to the discontinuation of certain business activities in Luxembourg. The cost efficiency ratio therefore came to 69.4 % (2013: 67.9 %). The increase corresponds essentially to the prior-year forecast, although we succeeded in keeping the ratio just below the 70 % mark.

Income from financial assets improved from €16.3million to €23.6million. Gains on the disposal of securities, in particular of corporate bonds, which saw credit spreads narrow further, were set against write-downs on investments in the real estate sector as well as on securities.

Other operating income/expenses came to €15.9million (2013: €36.9million). These largely include expenses resulting from the winding-up of our business with closed-end real estate funds, net income from the release of provisions as well as rental income, which we generate primarily with our real estate project in Australia. The prior-year figure was influenced by particularly high income generated from the net release of provisions for onerous contracts and pending litigation. Other net income amounted to €0.2million after €0.1million the year before.

Tax expenses increased versus the prior-year figure by €3.3million to €67.1million in the 2014 financial year. This gives a tax rate of 31.4 % after 29.1 % the previous year. Most of the taxes are paid in Germany.

The asset situation

Total assets were up by 12.0 % to €22.2billion as at the balance sheet date after €19.8billion as at 31 December 2013. This significant increase is the result of our growth strategy. The discontinuation of certain activities in Luxembourg did not have a substantial impact on the balance sheet in a year-on-year comparison as the balance sheet items had already been reduced to a large extent with effect from the previous year's balance sheet date.

Customer deposits remain our most important source of refinancing, accounting for 59.0 % of total equity and liabilities on the balance sheet date. We believe the €0.9billion increase versus the previous year (€12.2billion) reflects our clients' appreciation of the Bank's solid business policy, the growth path embarked upon and our high credit standing. As part of the HSBC Group, the Bank is still the highest rated private commercial bank in Germany with a 'AA- (Stable)' Fitch rating.

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 €2.7billion versus €2.1billion the previous year. This shows among other things the further increase in customer demand for trading-oriented retail products and investment certificates. Trading liabilities also include the negative market values of the derivatives which rose in keeping with the positive market values in trading assets.

Deposits by banks of €0.9billion were €0.4billion lower compared to the previous year (€1.3billion), essentially the result of lower cash collateral in the derivatives business as well as a decline in money market borrowings.

Subordinated capital amounted to €448.2million after €345.7million the year before. To back the higher risk-weighted assets in the course of the further implementation of the growth strategy and to compensate for expired subordinated liabilities, the Bank strengthened its subordinated capital significantly in the second quarter of 2014 by means of a subordinated capital contribution from HSBC Bank plc amounting to €150million.

Shareholders' equity of €1,916.4million is €462.7million or 31.8 % higher than the level as at 31 December 2013. The return on equity declined, in line with the prior-year forecast, to 14.4 % (2013: 16.5 %).

In the wake of the capital increase completed at the beginning of October, subscribed capital was increased by €16.0million and capital reserves by €365.2million. The Bank's capitalisation therefore improved in line with the growth in business. The dividend for the previous year of €70.3million was distributed in the second quarter. The valuation reserve for financial instruments rose by €35.8million to €168.4million. In contrast, the valuation reserve for the remeasurement of the net pension obligation declined by €33.4million to €–92.0million. This was attributable essentially in both cases to a decline in market interest rates.

The cash reserve amounted to €0.6billion versus €1.1billion the previous year.

Loans and advances to banks of €1.5billion were slightly lower by €0.1billion compared to the previous year.

The €1.7billion increase in loans and advances to customers to €6.5billion (2013: €4.9billion) clearly illustrates the success of the growth strategy we have embarked upon in the corporate banking business. Loan accounts grew by €1.3billion. We see further growth potential as firstly, the credit lines granted to our clients were still underused and secondly, we have already created considerable potential for new business within the scope of our growth strategy.

At €7.3billion (2013: €6.8billion), trading assets still represent the largest item on the assets side of our balance sheet with a share of 33.0 % (2013: 34.1 %). Bonds, which are mostly exchange traded and also eligible, account for an again lower, but still high share. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. Reductions in the portfolio of bonds and other fixed-income securities and tradable receivables were set against minimal growth in the portfolio of equities and other variable-interest securities. There was also an increase in the positive market values of our derivatives in connection with the increase in the negative market values of the derivatives reported under trading liabilities.

Financial assets of €5.9billion (2013: €5.1billion) were up by €0.8billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded in recent years, not least in keeping with the increase in customer deposits. We have a limited exposure in the peripheral states in the Eurozone in both the trading portfolio and financial assets.

The financial position

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. This regulation focuses on the definition of capital as well as the related capital requirements.

(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 equivalent as well as operational risk which have to be backed by capital at predefined minimum rates. On the other, the maximum credit limit up to which an individual borrower or a borrower unit may be granted a loan is determined from the extent of the capital.

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

The following capital measures took place in the HSBC Trinkaus & Burkhardt Group in 2014:

The Management Board of HSBC Trinkaus & Burkhardt AG decided to carry out a capital increase against cash contributions with subscription rights for the company's shareholders on 23 September 2014. Share capital was increased, making partial use of the existing authorised capital, by €16million through the issue of 5,980,360 new no-par-value ordinary bearer shares (no-par-value shares). Capital reserves were also increased by €365.2million, which means that the capital increase strengthened Common Equity Tier 1 Capital by €381.2million overall. The proceeds from the capital increase are being used in particular for the planned significant expansion of the Bank's business within the scope of its growth strategy.

Furthermore, in the wake of the further implementation of the growth strategy and to compensate for expired subordinated liabilities, the Bank strengthened its Tier 2 capital in the second quarter of 2014 by means of a subordinated capital contribution from HSBC Bank plc amounting to €150million.

HSBC Trinkaus & Burkhardt AG transferred €105million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 3 June 2014. At this year's Annual General Meeting on 2 June 2015 we will propose the payment of an unchanged dividend of €2.50 per share, enabling a further allocation to retained earnings of €77.3million from profit available for distribution according to the German Commercial Code (HGB).

The HSBC Trinkaus & Burkhardt Group had equity capital of €1,957.1million as at 31 December 2014 (2013: €1,638.5million). Tier 1 capital accounted for €1,568.6million (2013: €1,303.9million) and Tier 2 capital for €388.5million (2013: €334.6million). A comparison with 31 December 2013 is only possible to a limited extent owing to the changed regulatory provisions as well as the capital increase. As the Bank has issued no additional Tier 2 capital instruments, total capital consists exclusively of Common Equity Tier 1 Capital.

(b) Capital requirements

The Group's risk positions as at 31 December 2014 stood at €15,055.0million (2013: €11,125.0million), of which risk-weighted assets accounted for €12,175.6million (2013: €8,262.0million), the market risk equivalent for €1,502.8million (2013: €1,538.0million) and operational risk for €1,376.6million (2013: €1,325.0million). This gives a Tier 1 capital ratio of 10.4 % (31 December 2013: 11.7 %) and a regulatory capital ratio of 13.0 % (31 December 2013: 14.7 %) as at 31 December 2014. The significant pressure on the capital ratios expected in the prior-year forecast as a result of the growth initiative as well as the regulatory changes could only be partly offset by increases in Tier 1 and Tier 2 capital.

Thanks to the capital measures in the year under report, the regulatory capital requirements are still not a restrictive factor with respect to the continuation of the growth path we have embarked upon.

(c) Liquidity

Irrespective of the extent of the capital, liquidity is the decisive factor for banks to be able fulfil all of their contractual obligations in times of crisis as well. The rules on liquidity are a key feature of the CRR and go way 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 & Burkhardt 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

Compared to the Eurozone average, the macroeconomic point of departure in 2015 is favourable for Germany. The drastic fall in the oil price since the second half of 2014, the major weakness of the euro versus most significant trading currencies and the historically low level of interest rates are factors stimulating the German economy. With the number of persons in employment still on a record-breaking level, the German labour market is likely to be benefiting from this in particular. The outlook is therefore positive with a view to the optimism among German companies. The good employment prospects, rising wages, very low inflation and only little incentive to save owing to the ECB's zero/negative interest rate policy are creating a consumer-friendly environment. The German domestic economy above all should therefore again turn out to be the supporting pillar for German economic activity and enable growth of 1.0 % in 2015.

While the overall economic environment should be solid and supportive for HSBC Trinkaus & Burkhardt owing to its business focus on Germany, other framework conditions will put considerable pressure on the earnings situation in 2015. These include the extremely low level of money market interest rates. Owing to the surplus liquidity provided by the ECB, the Bank's solid deposit base has lost a great deal of its importance and a positive interest margin in our deposit-taking business can no longer be achieved, as a result of which net interest income is declining. The client-induced deposit surplus is becoming a negative factor. Until now, we have not yet passed on negative interest rates to our clients, but are observing further developments very closely as the investment of surplus liquidity at the ECB will lead to a loss of interest going into millions. At the same time, further high-yield bonds in the Bank's liquidity portfolio are maturing which can only be replaced by bonds offering comparable credit quality with far lower yields. Both factors are putting significant pressure on net interest income.

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 will potentially put pressure on the Bank's earnings situation and lead to significantly higher administrative expenses. This might 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 and the provision of financial products. This business model comes far closer to the objective of the global regulators than that of banks which are highly dependent on proprietary trading and refinancing via the capital markets. Nonetheless, the ECB policy has brought banks with large trading portfolios in peripheral state bonds and low customer deposits extraordinarily large gains.

HSBC Trinkaus & Burkhardt's capital base was strengthened further last year by a significant capital increase, the injection of subordinated capital and the reinvestment of net profit available for distribution based on the solid earnings position and exceeds the regulatory requirements. Thanks to the successful 2014 financial year, in which we met our revenue forecasts and further expanded our market shares – as planned – in the target groups, we have created a stable foundation for the years ahead.

In 2015, the Bank will continue to implement the growth initiative started in mid-2013, which focuses on the business with MME corporate clients, but also provides for the expansion of the Global Banking & Markets business.

The ambitious targets of the growth initiative, if implemented as planned, are likely to lead to increased capital requirements which exceed the amount transferred from profit available for distribution for 2014. As a result, the capital ratios will decline slightly, but without coming anywhere close to the minimum regulatory requirements.

We are expecting a high single-digit percentage increase in revenues for 2015. Commercial Banking, with very clear double-digit growth in revenues, is expected to be the growth driver while the activities in Global Banking & Markets and in Private Banking are likely to grow more moderately. We expect revenues in Asset Management to remain more or less unchanged. 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 are the result of a significant increase in the number of employees for the business with MME 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 have also been expanded correspondingly. In addition, there are many projects to expand IT support of the business and set up the necessary capacities. According to our forecast, this will lead to a increase in administrative expenses exceeding the 10 % mark. Many employees who were taken on during 2014 will now be included in staff expenses for the full year. The number of new staff members will be reduced, though, compared to 2014. We expect the Bank's cost efficiency ratio to increase to just under 70 % owing to the pressure on margins and the extremely burdensome interest rate situation.

An expansion strategy means higher risks, but also greater opportunities. This applies above all for the expansion of the lending portfolio with MME corporate clients. However, the positive trend in the German economy in the European context makes these risks appear to be acceptable. Credit margins are moving 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 2014, especially as the growth in lending should be accompanied by higher collectively assessed impairments. The expansion of the target ratings in the corporate banking business will also involve stronger capital backing alongside higher risk provisioning requirements. 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 expecting a slight increase in pre-tax profit overall. This will be accompanied in turn 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 moderately optimistic for 2015 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 in the HSBC Trinkaus & Burkhardt Group

Definition

In accordance with German Accounting Standard No. 20 (DRS 20), we understand by Risk Management System all rules which guarantee the systematic 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, strategic and pension risk as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk and structuring the risk in such a way that it not only conforms to the Group's risk-bearing capacity, but also offers corresponding risk premium and return.

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.

As a result 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 situation remain of the greatest priority for us, even though there is a surplus supply of liquidity in the market as a result of the ECB measures. We have expanded our strong liquidity reserves further and paid strict attention when investing the funds accruing in the money and capital market to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware 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 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 again not able to realise the expected economic growth in 2014, to which geopolitical tensions, for example the Ukraine crisis, also contributed. Owing to the nevertheless relatively favourable economic situation compared to the Eurozone in particular, the Bank's credit risk situation remained comfortable. Collectively assessed impairments increased further owing to the growth in lending. As the growth prospects for 2015 are moderately positive, we are confidently continuing to implement our growth strategy in the corporate banking business. This is based on the redefinition of the Bank's appetite for risk which takes the significant 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 back-testing anomalies in respect of market risk throughout the Bank. Interest rate levels in the Eurozone have reached a new historical low and the ECB is charging the banks negative interest for investing their surplus liquidity. The low and flat interest rate structure of the euro represents a significant risk for the Bank's income statement in the years ahead.

Risk management – organisational structure

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

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

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

In accordance with the concept of the HSBC Group, each division 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 division 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, a culture of open communication of risk and the constant further development of risk management are decisive. The awareness of values and the risk culture are strengthened by advanced training measures in which the Management Board and Executive Board members actively engage to promote a responsible corporate culture.

Internal Capital Adequacy Assessment Process

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

According to MaRisk, banks have to set up strategies and processes which ensure that enough internal capital is available to cover all main risks, in other words that their risk-bearing capacity is permanently guaranteed. ICAAP represents an integral part of risk management at HSBC Trinkaus & Burkhardt which is embedded into the risk management process and is constantly being developed further.

The analysis of risk-bearing capacity is based on an income statement/balance sheet approach and also comprises types of risk that are not included in the regulatory requirements for the capital adequacy of banks. The economic capital requirement is determined for various scenarios and the going-concern and liquidation scenarios are complemented 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 still not taken into consideration at HSBC Trinkaus & Burkhardt at present.

We continue to adjust the calculation of economic capital requirements to meet the growing challenges we face. Risk-bearing capacity is analysed comprehensively and constantly updated on a quarterly basis and the underlying methods are discussed in detail in the Capital Steering CommitteeThe 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.

in € m	30.09.2014*	30.09.2013
Risk cover funds	1,609.2	1,528.1
minus regulatory capital requirement	−943.8	−798.1
Free risk cover funds	665.4	730.0
Risks		
Credit risk	150.0	87.7
Market risk (including investment risk)	132.9	147.6
Liquidity risk	24.9	37.0
Operational risk	61.9	60.8
Pension risk	92.3	78.5
Business risk	28.8	34.1
Economic capital requirement	490.8	445.7
Utilisation of free risk cover funds (in %)	73.8	61.1

* The figures released for 31 December 2014 were not yet available at the time the consolidated financial statements were prepared.

The Group's risk-bearing capacity remains unchanged and its capitalisation adequate. The above table shows the risk-bearing capacity for the Group's going-concern scenario as at 30 September 2014. Accordingly, a maximum loss of €665.4million can be absorbed (free risk cover funds) without infringing the minimum regulatory requirements.

Restructuring plan

Owing to its integration into the globally represented HSBC Group, which is one of the world's most significant and best-rated banking groups, the HSBC Trinkaus & Burkhardt Group 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. 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 avoid the Bank becoming reliant upon government aid in the event of a crisis. The plan is updated annually and included in the audit of the financial 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 to which the banks now have to adjust. 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 & Burkhardt's strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon 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 further and expand the foreign business, payments transactions and receivables finance within the scope of our growth strategy. 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 the Bank's 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 have fallen further. 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 relatively 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 and can result in significant and lasting pressure on the Bank's earnings power. As a result of the ECB introducing negative interest rates, which we did not pass on to our clients in the year under report, we are not only losing net interest margin contributions, but are also generating losses on the deposit-taking side from a business point of view. Investment income from our liquid funds falls significantly each time a fixed-income bond is repaid. This interest rate environment, which we see on an historically low level up to and including 2017, will weaken our earnings position in 2015 and in each of the following years by a double-digit million figure.

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 & Burkhardt 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 banking crisis and in the euro 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 counterparty credit 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 Risk Committee of the Supervisory Board provides a framework for entering into default risk. It is examined and adjusted to the current requirements on a regular basis.

We are guided by the principle of risk diversification and therefore aim to spread our credit risks 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. At the explicit wish of our clients, the Bank is also prepared to finance its clients' foreign subsidiaries directly, provided the parent company guarantees these loans in a legally sound and enforceable manner.

(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 MMEs, banks and financial service providers. The rating systems are supplemented by risk classification systems for high net worth private clients and German federal states.

The rating system for clients in the German MME 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 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.

The granular 23-stage internal rating system, the so-called 'Customer Risk Rating' (CRR), can be summarised in a ten-stage rating system and then transferred to the following groups.

Internal rating system	Twelve-month probability of default in %
CRR 1 to CRR 2	0 – 0.169
CRR 3	0.170 – 0.740
CRR 4 to CRR 5	0.741 – 4.914
CRR 6 to CRR 8	4.915 – 99.999
CRR 9 to CRR 10	100

Definition of the groups:

- CRR 1 and CRR 2 exposures show a high ability to pay, with a negligible or low probability of default.
- CRR 3 exposures require closer monitoring, but show a good ability to pay to meet the obligations entered into. The probability of default is satisfactory.
- CRR 4 and CRR 5 exposures require closer monitoring and show an average ability to pay to meet the obligations entered into. The probability of default is moderate.
- CRR 6 to CRR 8 exposures require ongoing monitoring adjusted to the client's situation. There is an increased probability of default.
- CRR 9 and CRR 10 exposures are regarded as having defaulted. These are loans in respect of which the Bank assumes it is unlikely that the client will meet the loan obligation in full without our having to access the collateral provided.

All internal rating models are validated on an annual basis. Additional data from an external provider are used for the rating model for MME clients in particular in order to improve the quality of the validation. The internal rating models approved by the supervisory authorities are used for regulatory capital backing for international corporations, banks and financial service providers. The Bank takes the standard IRB approach for this, in which the clients' probability of default (PD) is assessed internally. The loss given default (LGD) and the exposure at default (EAD) are based on standard regulatory parameters. The Bank plans to introduce the advanced IRB approach in the medium term. By way of preparation for regulatory approval, the Bank uses internal models to estimate the loss given default (LGD) and the exposure at default (EAD) for the purpose of managing its economic risk-bearing capacity. The internal LGD model for corporate clients has been used since December 2012 and the EAD model since January 2014. Clients from the Global Private Banking segment as well as governments and governmental institutions are treated under the standard approach.

The Risk Control team at HSBC Trinkaus & Burkhardt is responsible 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 on the basis of political and economic analyses of the countries in question and these are shown to the Risk Committee of the Supervisory Board. We review the limits at least annually, making use of the comprehensive expertise available to us through HSBC's global office network.

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

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, company analyst and back office.

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

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 these provisions, the future payments from the loan and if necessary from the realisation 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.

	31.12.2014		31.12.2013	
	in €m	in %	in €m	in %
Loans and advances	**8,033.7**	**26.3**	**6,501.4**	**25.2**
to banks	1,494.8	4.9	1,643.8	6.4
to customers	6,538.9	21.4	4,857.6	18.8
Trading assets	**6,513.5**	**21.3**	**6,440.3**	**25.0**
Bonds and other fixed-income securities	2,155.0	7.1	2,484.0	9.6
Equities and other non-fixed-income securities	1,872.3	6.1	1,393.4	5.4
Tradable receivables	557.6	1.8	1,420.3	5.5
OTC derivatives	1,928.6	6.3	1,136.6	4.4
Derivatives in hedging relationships	0.0	0.0	6.0	0.0
Financial assets	**5,883.4**	**19.3**	**5,124.8**	**19.9**
Bonds and other fixed-income securities	5,375.5	17.6	4,693.7	18.2
Equities	26.9	0.1	29.9	0.1
Investment certificates	170.1	0.6	95.5	0.4
Promissory note loans	214.7	0.7	209.1	0.8
Investments	96.2	0.3	96.6	0.4
Contingent liabilities	**2,042.4**	**6.7**	**1,621.4**	**6.3**
Loan commitments	**8,067.7**	**26.4**	**6,109.4**	**23.6**
Total	**30,540.7**	**100.0**	**25,797.3**	**100.0**

Netting agreements, where offsetting contracts with one customer or counterparty 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. Note 'Offsetting of Financial Assets and Financial Liabilities').

(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	31.12.2014				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	1,494.8	6,538.9	2,042.4	8,067.7	18,143.8
of which uncollateralised	1,416.8	5,598.4	1,787.0	7,938.0	16,740.2
of which fully collateralised	0.0	481.4	89.0	98.7	669.1
of which partly collateralised	78.0	459.1	166.4	31.0	734.5
Amount of partial collateralisation	15.0	271.3	100.1	8.5	394.9

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 partly 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

HSBC Trinkaus & Burkhardt 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 programme 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 60 %, up to 65 % in individual cases, 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 and are taken into consideration to the extent of the claims insured in each case.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 3 years at the latest as a rule. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

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

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	31.12.2014				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,494.8	6,324.4	2,042.4	8,067.7	17,929.3
Overdue, but not impaired	0.0	194.3	0.0	0.0	194.3
Individually impaired*	0.0	20.2	0.0	0.0	20.2
Total	1,494.8	6,538.9	2,042.4	8,067.7	18,143.8

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

*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 various rating agencies arrive at differing valuations of the same financial assets, they are assigned to the lower rating category in each case.

in €m	31.12.2014			31.12.2013		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	744.9	2,216.9	2,961.8	1,133.2	1,985.8	3,119.0
AA+ to AA–	1,123.4	1,877.1	3,000.5	1,188.0	1,578.0	2,766.0
A+ to A–	113.4	145.4	258.8	50.0	550.2	600.2
BBB+ to BBB–	54.8	908.8	963.6	90.4	459.1	549.5
Lower than BBB–	0.2	217.5	217.7	2.7	111.2	113.9
No rating	118.3	9.8	128.1	19.7	9.4	29.1
Total	**2,155.0**	**5,375.5**	**7,530.5**	**2,484.0**	**4,693.7**	**7,177.7**

OTC derivatives

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

		31.12.2014		31.12.2013	
		in €m	in %	in €m	in %
OECD	Banks	1,292.7	67.1	932.1	81.6
	Financial institutions	326.1	16.9	53.6	4.7
	Other	309.1	16.0	156.6	13.7
Non-OECD	Banks	0.7	0.0	0.3	0.0
	Financial institutions	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.0	0.0
Total		**1,928.6**	**100.0**	**1,142.6**	**100.0**

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 (CRR), cf. section c) Risk classification systems. The credit quality as at the balance sheet date was as follows:

in €m	31.12.2014				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
CRR 1 to CRR 2	821.7	1,125.5	744.4	3,157.1	5,848.7
CRR 3	585.7	3,195.8	749.6	3,753.7	8,284.8
CRR 4 to CRR 5	7.5	1,917.1	509.4	1,114.4	3,548.4
CRR 6 to CRR 8	79.9	77.2	38.5	41.6	237.2
CRR 9	0.0	8.8	0.5	0.9	10.2
Total	1,494.8	6,324.4	2,042.4	8,067.7	17,929.3

in €m	31.12.2013				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
CRR 1 to CRR 2	944.8	795.7	729.3	2,885.0	5,354.8
CRR 3	646.5	2,638.2	631.8	2,467.8	6,384.3
CRR 4 to CRR 5	2.7	1,299.6	235.5	685.9	2,223.7
CRR 6 to CRR 8	49.8	82.8	24.8	69.3	226.7
CRR 9	0.0	0.0	0.0	0.0	0.0
Total	1,643.8	4,816.3	1,621.4	6,108.0	14,189.5

(j) Information on renegotiated and deferred problem exposures

Problem exposures that have been restructured in such a way that the Bank has granted a client concessions for economic or legal reasons based on their financial problems, which it would not have been prepared to grant under other circumstances, are reported as renegotiated exposures. Furthermore, the Bank agrees deferrals with clients in financial difficulties in order to make it easier for them to fulfil the contractual obligations for a limited period. However, the amount not paid during the deferral phase must by settled again at a later date. In both cases we carry out an assessment of the loss and, where necessary, recognise a valuation allowance and report these loans as impaired. Loans and advances to customers include renegotiated or deferred exposures of €43.9million. The impairments on renegotiated or deferred exposures amounted to €13.3million as at the balance sheet date.

(k) 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 €194.3million on the balance sheet date (2013: €20.1million) and are exclusively to customers. €193.7million (2013: €19.4million) is the result of the purchase of credit-insured accounts receivable in the factoring business. The fair value of the collateral stood at €174.9million (2013: €19.5million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full. Of the overdue, but not impaired loans and advances, €161.3million is less than 30 days overdue, €31.3million between 30 and 90 days overdue, €1.7million more than 90 days and €0.0million more than one year overdue.

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

HSBC Trinkaus & Burkhardt creates net loan impairment provisions as soon as there are objective, substantial indications suggesting 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 provisions have been set up are classified as being in default in terms of their credit rating and are therefore automatically assigned to CRR 9 or 10. In order to allow for country risks, net loan impairment provisions can also be set up for exposures with higher credit ratings. Net loan impairment provisions for country risks stood at €1.0million in the year under report (2013: €1.1million).

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

in €m	31.12.2014			31.12.2013		
	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*						
CRR 9	0.0	14.4	14.4	0.0	14.3	14.3
CRR 10	0.0	5.8	5.8	0.0	6.9	6.9
Total	**0.0**	**20.2**	**20.2**	**0.0**	**21.2**	**21.2**
IAI*						
CRR 9	0.0	9.6	9.6	0.0	10.7	10.7
CRR 10	0.0	4.8	4.8	0.0	5.0	5.0
Total	**0.0**	**14.4**	**14.4**	**0.0**	**15.7**	**15.7**
Book value after IAI*	**0.0**	**5.8**	**5.8**	**0.0**	**5.5**	**5.5**

* IAI: individually assessed impairments

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at €15.2million (2013: €17.7million) for loans and advances and at €13.1million (2013: €5.9million) for contingent liabilities and loan commitments. Please see the Note 'Adjustment of Accounting Methods' in the notes to the consolidated financial statements

for the adjustment of the method of calculation.

Impairments on financial assets came to €34.8million as at the balance sheet date (2013: €29.7million).

(m) Information on collateral received

The Bank held collateral for individually impaired loans and advances of €0.4million on the balance sheet date (2013: €0.0million).

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

Collateral and other credit improvements amounting to €0.5million were realised and drawn on, respectively, in the 2014 financial year (2013: €0.0million).

(o) Information on default risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to the Bank is then influenced strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of credit risk if a disproportionately large share of the credit risk is concentrated on individual borrowers. The Bank therefore also monitors the concentration on individual 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:

	31.12.2014		31.12.2013	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	16,627.4	54.5	12,372.4	48.0
Banks and financial institutions	8,639.3	28.3	8,543.0	33.1
Public sector	5,047.6	16.5	4,670.8	18.1
Employed private individuals	226.4	0.7	211.1	0.8
Total	**30,540.7**	**100.0**	**25,797.3**	**100.0**

	31.12.2014		31.12.2013	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	20,454.6	67.0	16,717.5	64.8
Other EU (plus Norway and Switzerland)	7,798.9	25.6	7,102.2	27.5
Asia	738.1	2.4	792.8	3.1
North America	647.6	2.1	366.5	1.4
Rest of Europe	561.2	1.8	545.9	2.1
South America	219.7	0.7	210.6	0.8
Africa	73.6	0.2	34.1	0.1
Oceania	47.0	0.2	27.7	0.1
Total	**30,540.7**	**100.0**	**25,797.3**	**100.0**

The breakdown by sector shows that the maximum default risk exists essentially 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 €2,053.6million (2013: €2,474.8million) 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 exposure to Spain and Italy of €227million and €229million, respectively, as at 31 December 2014. There was no exposure to Greece, Ireland, Portugal and Hungary, as in the previous year. There was exclusively covered bond exposure vis-à-vis banks in Spain and Italy amounting to €46million and €4million, respectively, while there was no exposure vis-à-vis banks in the other states mentioned. In Spain, Italy, Ireland, Hungary, Greece and Portugal there was exposure vis-à-vis non-banks of €76million, €130million, €47million, €1million, €3million and €2million, respectively.

(p) 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).

(q) 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 inadequacy or the failure of 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, particularly 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 including legal and reputational risk across the board within the Bank. The Committee meets every two months and is chaired by the member of the Management Board responsible for risk controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus & Burkhardt 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 also 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. This ensures that all members of the Management Board are constantly informed about current developments and the Bank's risk profile. If necessary, the Management Board of the Bank is involved to authorise measures in the event of significant losses or decisions made by the Operational Risks and Internal Controls Committee or the Risk Management Committee.

Once a year the head of the Operational Risk and Information Security team reports to the Risk 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 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. Audit reports provide valuable evidence of process and system weaknesses. The observation of external events helps to identify hitherto-unknown process and control weaknesses as well as risks which have arisen at other banks at an early stage and to avoid similar events affecting HSBC Trinkaus & Burkhardt.

One central method of proactively determining material risk is 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 & Burkhardt 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 by the 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 Information Security Risk 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 & Burkhardt primarily from interest rate, equity and foreign exchange trading activities as well as to a lesser extent from commodities where there is no physical delivery.

To measure market 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 revaluation 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
- Commodity prices
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories, such as Pfandbriefe, federal state bonds and bank bonds with further differentiation by creditworthiness and/or maturity
- Equity and equity index option volatilities for typical maturities
- Foreign exchange 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 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. If the evaluated result exceeds the value-at-risk as a loss in this analysis, it is referred to as a negative back-testing anomaly.

Back-testing anomalies were incurred on trading book level in the Bank in 2014 which were brought about essentially by an increase in interest rates of up to ten basis points. In addition, the evaluated result taking new business into consideration is also used in back-testing.

The small number of back-testing anomalies is therefore in line with the statistical expectations and continues to suggest that the modelling employed is probably on the conservative side.

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

in €m		2014		
		31.12	Maximum	Average
Trading book	Interest rate risk	2.6	4.8	3.6
	Currency risk	0.1	0.3	0.1
	Equity / index risk	0.4	1.7	0.7
	Credit spread risk	3.1	3.5	3.0
	Commodities risk	0.0	0.1	0.0
	Diversification	2.5	4.4	2.7
	Overall risk	**3.7**	**5.9**	**4.7**
Banking book	Interest-rate risk	0.6	2.1	1.1
	Currency risk	1.7	1.7	0.5
	Equity / index risk	2.0	2.0	1.6
	Credit spread risk	3.0	3.7	3.0
	Commodities risk	(–)	(–)	(–)
	Diversification	2.9	3.7	2.1
	Overall risk	**4.4**	**5.4**	**4.0**

in €m		2013		
		31.12	Maximum	Average
Trading book	Interest rate risk	2.9	2.9	1.8
	Currency risk	0.1	0.7	0.1
	Equity / index risk	0.7	4.0	1.5
	Credit spread risk	3.1	3.9	3.4
	Commodities risk	0.0	0.1	0.0
	Diversification	3.1	4.8	2.9
	Overall risk	**3.6**	**4.7**	**3.9**
Banking book	Interest rate risk	1.9	2.0	1.1
	Currency risk	0.0	0.0	0.0
	Equity / index risk	1.5	2.6	2.0
	Credit spread risk	3.4	5.9	5.2
	Commodities risk	(–)	(–)	(–)
	Diversification	1.4	4.5	2.7
	Overall risk	**5.4**	**6.3**	**5.7**

Risks 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 risks have lost in relative significance for HSBC Trinkaus & Burkhardt.

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

The so-called 'stressed value-at-risk' is also reported. The underlying period of particular stress on the markets was identified as March 2008 to February 2009 for 2014 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 2014. 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 2014. However, it briefly reverted to the level of the normal value-at-risk in summer 2014. The stressed value-at-risk was €6.5million as at the reporting date.

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) Definition

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

(b) Strategy

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

(c) Liquidity risk management

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

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.

(d) Advances/core funding ratio

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 sum of the volume of long-term capital market financing raised and 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 64.5 % at the end of the year (2013: 64.6 %). We predicted a slight deterioration in the advances/core funding ratio the previous year.

	Advances / Core Funding Ratio	
in %	2014	2013*
31.12.	64.5	64.6
Minimum	55.1	62.9
Maximum	75.8	69.7
Average	64.9	65.5

* In keeping with the provisions of the HSBC Group, we increased the share of deposits classified as core deposits in the financial year and adjusted the prior-year figures accordingly.

(e) 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

25 % 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 the liquid funds after three months and after liquidation of the liquidity cushion in the institution-critical scenario is an 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 2014 we had deposited most of these assets with a collateral value of €2.95billion at the Bundesbank (2013: €3.97billion) giving us potential access to central bank loans to this extent. As part of a test transaction to validate our emergency liquidity plan, we participated in an ECB main refinancing transaction and to a minor extent also in targeted longer-term refinancing transactions (GLRGs) in 2014.

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 109 % of the forecast outflow of funds after three months (2013: 105 %).

	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 %	2014	2013	2014	2013
31.12	109	108	109	105
Minimum	99	106	101	102
Maximum	113	130	109	116
Average	106	116	105	108

(f) 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	31.12.2014	31.12.2013
Undrawn committed credit lines		
The five largest	1,069.3	822.2
To the largest market sector	1,699.8	1,161.6

(g) 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 are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value shown in the balance sheet.

in €m	31.12.2014						
		Gross outflow (not discounted)					
	Present value	Σ	< 1m	1–3m	3–12m	12 m > 4y	> 4y
Financial liabilities within the balance sheet:							
Deposits by banks	875.3	876.2	785.9	5.6	0.0	17.8	66.9
Customer accounts	13,093.9	13,096.6	12,382.4	283.3	201.8	199.1	30.0
Certificated liabilities	10.0	11.2	0.4	0.0	0.0	10.8	0.0
Trading liabilities (excluding derivatives*)	2,726.1	3,148.7	333.4	125.8	543.8	692.3	1,453.4
Derivatives in hedging relationships	115.1	142.7	0.4	0.0	0.6	41.6	100.1
Provisions**	167.2	204.5	95.6	0.0	0.0	0.0	108.9
Other liabilities	210.1	211.2	49.2	10.5	33.4	101.3	16.8
Subordinated capital	448.2	623.1	0.0	0.0	0.0	90.9	532.2
Sub-total	17,645.9	18,314.2	13,647.3	425.2	779.6	1,153.8	2,308.3
Financial liabilities outside the balance sheet:							
Financial guarantees	1,285.1	1,285.1	1,285.1	0.0	0.0	0.0	0.0
Loan commitments	8,067.7	8,067.7	8,067.7	0.0	0.0	0.0	0.0
Total	**26,998.7**	**27,667.0**	**23,000.1**	**425.2**	**779.6**	**1,153.8**	**2,308.3**

* In accordance with IFRS 7, 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	31.12.2013						
			Gross outflow (not discounted)				
	Present 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 IFRS 7, 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.

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 upon which the assumptions are based 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
Loans and advances to banks	31.12.2014	1,062.2	170.4	260.5	1.8	0.0	0.0	1,494.8
	31.12.2013	1,236.2	274.9	130.2	2.5	0.0	0.0	1,643.8
Loans and advances to customers	31.12.2014	3,128.5	1,725.6	1,081.5	458.0	145.3	0.0	6,538.9
	31.12.2013	2,569.5	1,291.9	648.7	274.2	73.4	0.0	4,857.6
Trading assets*/**	31.12.2014	7,327.8	0.0	0.0	0.0	0.0	0.0	7,327.8
	31.12.2013	6,747.6	0.0	0.0	0.0	0.0	0.0	6,747.6
Financial assets	31.12.2014	271.0	31.4	173.9	2,451.0	2,662.9	293.2	5,883.4
	31.12.2013	255.1	51.3	393.0	2,779.6	1,423.8	222.0	5,124.8
Other assets	31.12.2014	7.4	0.0	9.0	0.0	0.0	187.5	204.0
	31.12.2013	3.1	0.0	9.2	0.0	0.0	152.2	164.5
Total	**31.12.2014**	**11,796.9**	**1,927.4**	**1,524.8**	**2,910.8**	**2,808.2**	**480.7**	**21,448.9**
	31.12.2013	**10,937.7**	**1,618.1**	**1,181.1**	**3,056.3**	**1,497.2**	**248.0**	**18,538.3**

in €m		< 1m	1–3m	3–12m	12m–4y	> 4y	No fixed term	Total
Deposits by banks	31.12.2014	785.9	5.6	0.0	17.7	66.1	0.0	875.3
	31.12.2013	1,263.7	0.6	0.1	5.0	0.0	0.0	1,269.4
Customer accounts	31.12.2014	12,382.3	283.2	201.5	197.5	29.4	0.0	13,093.9
	31.12.2013	11,177.6	594.7	170.2	252.3	24.3	0.0	12,219.1
Certificated liabilities	31.12.2014	0.0	0.0	0.0	10.0	0.0	0.0	10.0
	31.12.2013	0.0	0.0	0.0	10.0	0.0	0.0	10.0
Trading liabilities*/**	31.12.2014	5,309.4	0.0	0.0	0.0	0.0	0.0	5,309.4
	31.12.2013	4,053.0	0.0	0.0	0.0	0.0	0.0	4,053.0
Provisions***	31.12.2014	95.6	0.0	0.0	0.0	71.6	0.0	167.2
	31.12.2013	117.4	0.0	0.0	0.0	25.3	0.0	142.7
Other liabilities	31.12.2014	49.2	10.4	33.3	100.5	16.7	0.0	210.1
	31.12.2013	57.3	7.3	44.5	106.8	13.4	0.0	229.3
Subordinated capital	31.12.2014	0.0	0.0	0.0	81.2	367.0	0.0	448.2
	31.12.2013	0.0	20.0	27.5	61.2	237.0	0.0	345.7
Total	**31.12.2014**	**18,622.4**	**299.2**	**234.8**	**406.9**	**550.9**	**0.0**	**20,114.1**
	31.12.2013	**16,669.0**	**622.6**	**242.3**	**435.3**	**300.0**	**0.0**	**18,269.2**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives according to their contractual maturities can be found in the Note 'Derivatives Business'.
** Excluding derivatives which are part of a hedging relationship.
*** Net obligations pursuant to IAS 19 are recognised with their average term.

(h) 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 of banks are defined:

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

The Liquidity Ordinance (LiqV) also remains in force.

The LCR puts a bank's liquid assets in relation to its net liquidity outflows over the next 30 days and was applicable from 31 March 2014 for the first time. While no regulatory minimum yet applies for the LCR during 2014, the minimum requirement (limit) given will rise successively from October 2015 onwards, from 60 % to reach 100 % by January 2018. The delegated regulation supplementing the CRR specifies the liquidity requirements formulated in the CRR to date in more detail and is applicable from 1 October 2015.

Basic data for determining the NSFR had to be submitted from 31 March 2014 for the first time. The minimum requirement for the NSFR as well as the final definition have not yet been finally stipulated by the regulatory authorities. Based on our knowledge of the current status of the planning process, the NSFR will come into force on 1 January 2018.

The following overview shows the Bank's regulatory liquidity ratio, which by far exceeds the statutory requirements:

	LCR	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2014	2014	2013
31.12	125.9	2.92	2.39
Minimum	118.0	2.24	1.91
Maximum	218.0	2.92	2.51
Average	154.1	2.46	2.17
Reference value in accordance with section 2 LiqV	–	**1.00**	**1.00**

Overall picture of the risk situation

The overall picture of the Bank's risk situation is balanced. Based on the assessments in January 2015 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 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. A substantial interest rate increase by the ECB represents the greatest market risk for the Bank, but is assessed as highly unlikely based on the communications from the ECB. As the consolidation of government debt in the Eurozone has made no significant progress to date, also on account of lower growth rates, the risk of the Eurozone partially breaking up cannot be completely ruled out – also in view of the forthcoming elections in the Eurozone countries. We regard this risk as unrealistic at present, though.

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 net loan impairment provision.

We cannot disregard the further development of the geopolitical risk. The deterioration of the situation in Ukraine and Russia could have a significant impact on our business partners and the economic trend in neighbouring eastern states. Risks arising from religious or political groups cannot be ruled out either.

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 the previous years. We are monitoring these risks 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 2015 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, our stronger capitalisation and liquidity situation 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. The Bank 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.hsbc.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 as at 31 December 2014. 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 HGB well as the MIS are based substantially on integrated accounting. This involves a self-developed mainframe programme package which essentially provides data and interim results for the daily, monthly and annual financial statements including the income statement as well as for cost-centre accounting and customer costing. Integrated accounting guarantees that there is a close connection between accounting and MIS. Accounting according to IFRS for HSBC Trinkaus & Burkhardt AG is also featured in integrated accounting via separate company codes.

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

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

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

Consolidation is based substantially on TuBKons, an access programme package developed by the Bank itself, and the data stored in a DB2 system. Debt, expense and income as well as capital consolidation and the elimination of inter-company gains is carried out in TubKons based on the import from integrated accounting, the various import systems with the required transaction details 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 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 & Burkhardt Group are consolidated on a monthly basis. Any differences arising are recorded and clarified. Transactions with other companies from the HSBC Group are presented separately in the monthly report to HSBC which it automatically consolidates. Any substantial differences arising are reported to the companies concerned on a monthly basis and are to be promptly clarified.

(g) Account statements and confirmations of open transactions
HSBC Transaction Services GmbH sends out bi-annual account statements for all customer accounts. For open transactions, 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 to the accounting process. This ensures that all substantial errors are quickly recognised and corrected.

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

Net interest and net fee income according to the income statement are also reconciled with customer costing. Customer costing is made available to the customer service officers and the divisional and the heads of the divisions servicing 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 and 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 Management 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.

Information Relevant for Acquisitions

Shareholders and shares

Capital

At 31 December 2014 the Bank's issued share capital was €91.4million divided into 34.1million no-par-value shares. 63.0 % of the share capital is listed on the Düsseldorf and Stuttgart stock exchanges.

All shares have uniform rights and are bearer shares in principle. However, the 5,980,360 new no-par-value bearer shares issued within the scope of a capital increase making partial use of the existing authorised capital are fully entitled to dividends only from 1 January 2015. The €16million increase in the Bank's issued share capital was recorded in the commercial register on 27 October 2014. Each no-par-value share carries one vote. No shares have been issued with special rights conferring powers of control. The Management Board knows of no limitations affecting voting rights or the transfer of shares. Where employees hold shares of HSBC Trinkaus & Burkhardt AG, they exercise their control rights as other shareholders in accordance with the statutory provisions and the Articles of Association.

HSBC Holdings plc, London, indirectly held 80.7 % 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 2014 our share price declined by 17.5 % to €70.00. The lowest fixing price of the year was €69.00 and the highest €80.28. 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
31.12.2014	34,088,053	70.00	2,386.16

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

Dividends

For the 2014 financial year we propose paying a dividend of €2.50 per share (2013: €2.50 per share). With a dividend total of €70.3million (2013: €70.3million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2014. The 5,980,360 new no-par-value shares issued within the scope of the capital increase in 2014 mentioned in the section on capital above are excluded from a dividend payment.

Constitution of the company

In accordance with the Articles of Association, the Management Board of the Bank must consist of at least two members. However, the Supervisory Board may appoint additional members of the Management Board in excess of this number. The Supervisory Board passed a resolution to appoint Mr. Norbert Reis as a further member of the Management Board of the Bank with effect from 1 January 2014. The Management Board therefore consisted of four people on 31 December 2014.

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

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

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

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

The HSBC Trinkaus & Burkhardt Group is committed to sustainable corporate 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.

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 tax payer of the City of Düsseldorf, with which we have been linked since our foundation in 1785.

Responsible investing

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 well-known SRI companies to get into contact with international investors on the topic of sustainability.

In our opinion, ecological and social as well as corporate governance criteria have a substantial influence on a company's financial data and significantly strengthen its competitive position. HSBC Global Asset Management already signed the 'United Nations Principles for Responsible Investment' in June 2006 and has therefore undertaken to take ecological, social and corporate governance criteria into consideration when making investment decisions.

We offer clients wishing to invest according to concrete environmental, social or ethical criteria a broad range of sustainable equity and bond concepts, relying on the services of research houses well-known in the area of sustainability. In addition to 'best in class' approaches, we≈also offer a large number of thematic investment solutions.

Our global asset management units also work with tough exclusionary criteria. For example, companies associated with anti-personnel landmines and cluster munitions have been avoided since 2010, using the services of the research organisation Ethix alongside our own due diligence checks.

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

Corporate Sustainability at HSBC Trinkaus & Burkhardt AG

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

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)

Social responsibility
Social commitment

Social commitment
- Art and culture
- Youth and education
- HSBC Trinkaus Jugend & Bildung e.V.

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 world-wide Sustainability Risk Rating which provides for regulations for certain industries such as mining, chemicals, energy, defence, forestry and water. The sustainability risk policies and their implementation are examined regularly and updated if required.

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 10million upwards correspond essentially to 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 & Burkhardt offers its staff numerous voluntary social benefits. In order to support the reconciliation of work and family obligations, we work with flexible working models and a family service which helps, for example, in finding external care for children or elderly relatives and offers life situation coaching. The offer for employees with families is rounded off by two company kindergarten facilities.

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: our employees are regularly available as voluntary 'Experts in the classroom' in general-education schools in Düsseldorf and the cities in which our branches are located.

HSBC Trinkaus & Burkhardt is also involved as one of the main sponsors in the 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, one-off campaigns and with donations in kind.

Our social commitment is aimed primarily at giving young people a perspective. The charitable association HSBC Trinkaus Jugend & Bildung e. V. based in Düsseldorf has been set up to concentrate our efforts in this area with the statutory purpose of promoting young people, education and inter-cultural understanding. This purpose is achieved among other things by acquiring the necessary funding in the form of voluntary donations as well as through the personal involvement of association members and employees of the Bank. The association's initial initiative is the 'd.eu.tsch' grant programme, which is aimed at supporting university graduates from southern Europe in entering professional life in Germany.

Ecological responsibility

In order to keep the impact of our business operations on the environment as low as possible, the Bank 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 journeys for business trips in order to reduce CO_2 emissions and fine dust. Company season tickets for employees also support environmentally friendly mobility.

The HSBC Group'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, the Bank has made a voluntary commitment to the following initiatives:

- Carbon Disclosure Project
- Diversity Charter
- Institutional Investors Group on Climate Change
- 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 2,650 employees at the end of 2014, compared to 2,527 at the end of the previous year. This represents an increase of 4.9 %. At the end of 2014 we were also paying retirement, widow's and orphan's pensions to 584 recipients, compared to 577 at the end of 2013.

Training activities

In view of the changes in the competitive conditions in the training market and our individual business model, we have decided to restructure our training activities. The Bank will focus more in future on dual training programmes alongside traditional commercial training. The first four students working towards a Bachelor of Arts in Banking & Finance have already started their practical dual study course at the FOM University of Applied Sciences. This means that our eight banking apprentices who are currently in their final year of training will be the last to complete this apprenticeship for the Bank.

Owing to the steady demand for apprentices working towards professional qualifications in office communication, we continue to focus on this apprenticeship. Following the reform of the vocational education and training programme carried out by the Chamber of Industry and Commerce, this professional qualification has been offered since this year under the name 'Office Management Clerk' and includes the main topics 'Assistant & Secretary', 'Commercial Management & Controlling' as well as 'Personnel Management'. While eight apprentices, two of whom at HSBC Transaction Services GmbH, are still working towards professional office communication qualifications at present, a total of eight office management trainees were taken on within the Group in 2014. Two apprentices working towards the 'Office Management Clerk' qualification are also attending a parallel Bachelor of Arts study course in 'Business Administration' at the FOM University of Applied Sciences.

In addition to the junior employees mentioned above, three trainees are currently working towards investment fund specialist qualifications at our subsidiary Internationale Kapitalanlagegesellschaft mbH (HSBC INKA). There are 31 trainees in the Group overall at present. We are proud of our 17 (former) trainees who successfully completed their training this year. Thanks to the very good results two of our trainees achieved in this year's final examination, we as an employer have received an award from the Düsseldorf Chamber of Commerce and Industry for the excellent services we provide in our professional training for the eighth year in succession.

Advanced training

We see the professional and social skills, conduct which is in keeping with the Bank's values 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

As a credit institution, the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) issued by the Federal Ministry of Finance apply above all for HSBC Trinkaus & Burkhardt AG alongside the provisions of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code. In accordance with section 17 of the Remuneration Ordinance for Institutions (InstitutsVergVO) in the version of 16 December 2013, the Bank is to be classified as a major institution in 2014.

Observing the legal and regulatory requirements, the compensation policy is stipulated firstly by the Management Board and secondly by the Supervisory Board. The Remuneration Control Committee set up by the Supervisory Board for questions relating to compensation consists of five members of the Supervisory Board. At present these are the Chairman of the Supervisory Board, two employees' representatives as well as two representatives of the majority shareholder. Five committee meetings were held in 2014 which were also attended by the remuneration officer to be appointed in accordance with section 23 of the Remuneration Ordinance for Institutions (InstitutsVergVO) alongside the members of the Management Board. The guidelines of the remuneration policy, and here in particular the adequate structuring of the remuneration systems and their parameters, were discussed regularly with the company's Management Board members at the meetings. With regard to the amount of the fixed salary element and variable compensation component, use was also made of external advisory services primarily to guarantee that the structure of the compensation system is in line with market conditions and competitive.

The total amount of the variable compensation paid to Management Board members and employees of the company is geared towards the available bonus pool, which is determined in a standardised, transparent and formalised process. An equal balance between the company's risk-bearing capacity on the one hand and the competitiveness of the individual compensation on the other is decisive, whereby with regard to the latter sustained performance, a high level of customer satisfaction as well as impeccable and team-oriented conduct are rewarded in particular.

Compensation of the Executive and Supervisory Bodies

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. A bonus related to the function of Management Board member is part of the fixed salary component and is paid to guarantee that the compensation remains in line with the market conditions and commensurate with respect to the current statutory provisions. Each member of the Management Board has also been given an individual pension commitment.

The extent of the fixed salary element as well as the annual variable compensation component is determined by the Supervisory Board in a formalised and transparent process which is prepared and monitored by the Remuneration Control Committee. The variable compensation component bears an appropriate ratio to the fixed salary element, whereby the upper limit of twice the fixed salary component resolved by the Annual General Meeting on 3 June 2014 observing the provisions of section 6 para. 1 of the Remuneration Ordinance for Institutions (InstitutsVergVO) as well as section 25a para. 5 German Banking Act (KWG) may not be exceeded.

To guarantee the sustainability of the compensation, the variable compensation component is paid partly in cash and partly in the form of an allocation of shares of HSBC Holdings plc. The share of the variable compensation component is based firstly on the provisions of the German Banking Act (KWG) and the Remuneration Ordinance for Institutions (InstitutsVergVO) and secondly on the HSBC Group's provisions applicable throughout the Group. For all members of the Management Board, half of the entire variable compensation for the 2014 financial year consists of a cash payment and half of an allocation of shares of

HSBC Holdings plc. 40 % of these shares will be transferred in the 2015 financial year and 60 %, of which a third in each case, in the next three financial years, in other words from 2016 to 2018. A further holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc in each case.

Price risks and opportunities arising from the shares granted in the period between their allocation up until the end of the six-month holding period lie exclusively with the respective Management Board members. Management Board members are not permitted to undertake any hedging activities, or other countermeasures, aimed at undermining or nullifying the risk alignment of their compensation intended by the granting of shares of HSBC Holdings plc.

The compensation for members of the Supervisory Board is governed in the Articles of Association, according to which each Supervisory Board member receives a fixed salary of €50,000. 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 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 €4,334.6thousand, the fixed compensation for all members of the Management Board for 2014 was higher than in the previous year (€2,244.7thousand) owing to the granting of functional bonuses. The variable component of the compensation amounted to €5,076.0thousand (2013: €7.616,8thousand)

. The variable component of the Management Board compensation for the 2014 financial year includes a long-term remuneration component of €3,045.6 thousand (2013: €4,390.1 thousand).

Other compensation in the amount of €66.6 thousand (2013: €112.7 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 €18.3million (2013: €13.3million) have been created to cover pension obligations to the members of the Management Board and their surviving dependants according to IFRS.

The compensation of the Supervisory Board amounted to €1,188,750.00 (2013: €1,312,830.87) for the 2014 financial year. The members of the Advisory Board received remuneration totalling €397,725.00 (2013: €417,000.00). Furthermore, fees were paid to two (2013: two) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled €179,987.50 (2013: €177,012.50). 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, as well as to former Management Board members of Trinkaus & Burkhardt AG and their surviving dependents totalled €5.0million (2013: €7.2million). Provisions totalling €41.6million (2013: €39.9million) have been created to cover pension obligations according to IFRS for this group of 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 the Note 'Share-Based Payments'.

As in the previous year, there were no loans and advances to members of the Management Board. As at the balance sheet date no members (2013: one member) of the Supervisory Board were utilising current account loans (2013: €3,000). 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 the Note 'Letter of Comfort'.

Employee compensation

In accordance with sections 5, 6 para. 1 of the Remuneration Ordinance for Institutions (InstitutsVergVO) and section 25 a para. 5 German Banking Act (KWG), the Bank pursues a compensation strategy that is geared towards the long term and is in keeping with the Bank's objectives, values and strategy. Performance-related remuneration which is in line with the market conditions 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. The employee compensation system is designed in such a way that it avoids incentives for members of staff to take disproportionately high risks. The high share of the fixed salary element in relation to overall compensation, which is adequate by comparison with the market, also contributes to this in particular. In order to guarantee that the compensation of our employees remains in line with the market conditions and commensurate with respect to the current statutory provisions, function-related bonus payments are granted which increase the fixed compensation component. These bonus payments do not lead to increases in expenses for occupational pension benefits for the Bank.

The employee compensation system is 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 with the approval of the Remuneration Control Committee 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 determined in a formalised and comprehensible process in which the remuneration officer is involved and which he/she monitors. According to the provisions of the rules of procedure for the Supervisory Board, the fixed and variable compensation for the Bank's top managers reporting directly to the Management Board, who are among the 15 highest-paid employees of the HSBC Trinkaus & Burkhardt Group, is determined with the approval of the Remuneration Control Committee.

The variable compensation is determined by the Management Board based on proposals made by the divisional heads taking into consideration the quantitative and qualitative performance of the employees, their conduct and allowing for the relevant economic aspects. When evaluating performance, the sustainability of the performance and customer satisfaction are also acknowledged in particular. Employee performance is assessed on the basis of fixed criteria allowing for the risks taken, the observance of compliance guidelines as well as the other codes of conduct, and here in particular the adherence to the values of the HSBC Group.

Observing the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) and in keeping with the principles of the HSBC Group regarding the payment of variable compensation, the variable compensation is paid entirely in cash or partly in cash and partly as an allocation of shares of HSBC holdings plc. According to the principles of the HSBC Group, it is envisaged with respect to the variable compensation for the 2014 financial year that it will be paid entirely in cash in March 2015 up to an amount of €55,400 (USD 75,000). Between 10 % and 50 % of the variable compensation exceeding this amount will be paid in shares of HSBC Holdings plc depending on the amount. The cash component will be paid in March 2015 and a third of the shares of HSBC Holdings plc will be transferred in each of the following three years, 2016, 2017 and 2018.

As a major institution, the Bank identified those employees over the course of 2014 who are to be qualified as Material Risk Takers pursuant to section 18 para. 2 Remuneration Ordinance for Institutions (InstitutsVergVO). Special compensation provisions apply for these employees in accordance with section 18 para. 1 in conjunction with section 20 Remuneration Ordinance for Institutions (InstitutsVergVO) which have been implemented in a separate guideline for Material Risk Takers and has the following impact on the payment of the variable compensation:

Provided it amounts to at least €50,000, half of the entire variable compensation of the Material Risk Takers consists of a cash payment and half of an allocation of shares of HSBC Holdings plc. 60 % of these shares will be transferred in the 2015 financial year and 40 %, of which a third in each case, in the next three financial years, in other words from 2016 to 2018. A further holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc in each case.

Material Risk Takers, who are the Bank's top management level reporting directly to the Management Board, will receive 40 % of the compensation in the 2015 financial year. A third of the remaining share will be transferred in each of the next three financial years, from 2016 to 2018, whereby a further holding period of six months from transfer is also stipulated for the shares of HSBC Holdings plc in each case.

Price risks and opportunities arising from the shares granted in the period between their allocation up until the end of the six-month holding period lie exclusively with the respective employees. The employees are not permitted to undertake any hedging activities, or other countermeasures, aimed at undermining or nullifying the risk alignment of their compensation intended by the granting of shares of HSBC Holdings.

The variable remuneration for the Material Risk Takers is determined in a formalised and comprehensible process which, in addition to taking the business performance of the company and the division into consideration, arrives at an overall assessment with respect to the individual performance – based on quantitative and qualitative criteria – as well as the rule-consistent conduct of the employee. To introduce a formal performance management system and make a connection between the performance and conduct of the Material Risk Takers, a private works agreement has been concluded with regard to section 14 Remuneration Ordinance for Institutions (InstitutsVergVO). The results of the assessment (rating) therefore have a direct impact on the determination of the variable compensation for the Material Risk Takers.

If parts of the variable compensation are not paid out to the Management Board members and employees, respectively, until the following years, these compensation components are subject to standardised and formalised malus regulations applicable throughout the Group. Accordingly, this variable compensation can be withheld in full or in part in particular if the earnings contribution originally acknowledged turns out to be not sustainable or the recipient's conduct is considered to be questionable in hindsight.

The table below gives a summary of the most important quantitative information relating to the compensation for the Management Board and the Material Risk Takers based on Art. 450 para. 2 of Regulation (EU) No 575/2013:

	Number of beneficiaries of fixed compensation	Total fixed compensation in €m	Number of beneficiaries of variable compensation	Total variable compensation for the 2014 financial year (€m)	Of which total variable compensation paid in cash (€m)	Of which total variable compensation paid in shares (€)
Management Board	4	4.3	4	5.0	2.5	2.5
Material Risk Takers	296	40.1	283	27.8	14.1	13.7

	Total outstanding deferred compensation (€m)	Of which already earned in €m	Of which still to be earned in €m	Deferrals granted in 2014 in €m	Deferrals paid out/allocated in 2014 in €m	Total amount of deferral reductions in €m
Management Board	12.0	0.0	12.0	3.0	4.7	0.0
Material Risk Takers	25.4	0.0	25.4	11.7	6.5	0.0

No payments at the start of a contract of employment were made in 2014.

	Severance payments made in 2014 (in €m)	Number of beneficiaries of the severance payments made	Severance payments granted in 2014	Number of beneficiaries of the severance payments granted	Highest amount awarded to an individual person
Management Board	0.6	1	0.0	0	0.0
Material Risk Takers	0.0	0	0.0	0	0.0

5 persons were promised compensation between €1.0million and €1.5million, 1 person between €1.5million and €2.0million, 1 person between €2.0million and €2.5million and 2 persons between €2.5million and €3.0million in respect of the 2014 financial year during the period under report.

The overall amount of fixed compensation paid in the HSBC Trinkaus & Burkhardt Group in 2014, including the fixed compensation paid for the Management Board, came to €179.1million. 1,489 persons were promised variable compensation in 2015 for the 2014 financial year totalling €55.5million. This figure includes the variable compensation for the Management Board. The overall amount is split between the individual divisions as follows:

	Total fixed compensation (€m)	Total variable compensation (€m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	100.5	39.5	837
Private Banking and Asset Management	21.1	6.4	154
Functions and HTS	57.5	9.6	498

Thanks

The Bank continues to owe its success to the particular commitment and outstanding performance of our employees, and we would like to take this opportunity to thank them all.

We would also like to thank the Employees' Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation once again over the past financial year.

Corporate Government Statement

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the 'Government Commission of the German Corporate Governance Code' and made this permanently available to the public on the HSBC Trinkaus & Burkhardt homepage under http://www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporate-governance).

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2014	31.12.2013	Change	
				in €m	in %
Cash reserve	(21)	616.4	1,133.7	–517.3	–45.6
Loans and advances to banks	(6, 22)	1,494.8	1,643.8	–149.0	–9.1
Loans and advances to customers	(6, 23)	6,538.9	4,857.6	1,681.3	34.6
Net loan impairment provision	(8, 24)	–29.6	–33.4	3.8	–11.4
Trading assets	(6, 25)	7,327.8	6,753.6	574.2	8.5
Financial assets	(6, 26)	5,883.4	5,124.8	758.6	14.8
Share of profit in associates	(10, 27)	20.3	54.5	–34.2	–62.8
Property, plant and equipment	(11, 28)	97.6	83.8	13.8	16.5
Intangible assets	(12, 28)	10.6	15.9	–5.3	–33.3
Taxation recoverable	(16, 29)	13.6	10.9	2.7	24.8
of which current		1.5	5.2	–3.7	–71.2
of which deferred		12.1	5.7	6.4	112.3
Other assets	(30)	204.0	164.5	39.5	24.0
Total assets		**22,177.8**	**19,809.7**	**2,368.1**	**12.0**

Liabilities in €m	(Note)	31.12.2014	31.12.2013	Change	
				in €m	in %
Deposits by banks	(6, 33)	875.3	1,269.4	–394.1	–31.0
Customer accounts	(6, 34)	13,093.9	12,219.1	874.8	7.2
Certificated liabilities	(35)	10.0	10.0	0.0	0.0
Trading liabilities	(6, 36)	5,424.5	4,099.9	1,324.6	32.3
Provisions	(8, 15, 24, 37)	167.2	142.7	24.5	17.2
Taxation	(16, 38)	32.2	39.9	–7.7	–19.3
of which current		32.2	39.9	–7.7	–19.3
of which deferred		0.0	0.0	0.0	–
Other liabilities	(39)	210.1	229.3	–19.2	–8.4
Subordinated capital	(40)	448.2	345.7	102.5	29.6
Shareholders' equity	(41)	1,916.4	1,453.7	462.7	31.8
Subscribed capital		91.4	75.4	16.0	21.2
Capital reserve		731.7	365.8	365.9	100.0
Retained earnings		868.2	781.9	86.3	11.0
Valuation reserve for financial instruments		168.4	132.6	35.8	27.0
Valuation reserve for the remeasurement of the net pension obligation		–92.0	–58.6	–33.4	57.0
Valuation reserve from currency conversion		2.2	1.3	0.9	69.2
Consolidated profit available for distribution		146.5	155.3	–8.8	–5.7
Total equity and liabilities		**22,177.8**	**19,809.7**	**2,368.1**	**12.0**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2014	2013	Change in €m	Change in %
Interest income		249.9	236.1	13.8	5.8
Interest expense		75.2	70.3	4.9	7.0
Net interest income	(18, 43)	174.7	165.8	8.9	5.4
Net loan impairment and other credit risk provisions	(8, 44)	4.0	10.9	−6.9	−63.3
Share of profit in associates	(45)	0.2	0.3	−0.1	−33.3
Fee income		760.4	765.7	−5.3	−0.7
Fee expenses		370.7	364.6	6.1	1.7
Net fee income	(18, 46)	389.7	401.1	−11.4	−2.8
Net trading income	(18, 47)	107.3	95.7	11.6	12.1
Administrative expenses	(48)	494.0	486.2	7.8	1.6
Income from financial assets	(18, 49)	23.6	16.3	7.3	44.8
Net other income	(18, 50)	16.1	37.0	−20.9	−56.5
Pre-tax profit		**213.6**	**219.1**	**−5.5**	**−2.5**
Tax expenses	(16, 51)	67.1	63.8	3.3	5.2
Net profit		**146.5**	**155.3**	**−8.8**	**−5.7**

Reconciliation from net income to comprehensive income

in €m	2014	2013
Net profit	146.5	155.3
Gains/losses after tax reclassified in the income statement	36.7	−23.9
of which from financial instruments	35.8	−28.0
of which from currency conversion	0.9	4.1
Gains/losses after tax not reclassified in the income statement	−33.4	1.7
of which from the remeasurement of the net pension obligation	−33.4	1.7
Comprehensive income	**149.8**	**133.1**

Earnings per share

	2014	2013
Net profit in €m	146.5	155.3
Average number of shares in circulation in million	28.1	28.1
Earnings per share in €	**5.21**	**5.53**
Undiluted earnings per share in €	**5.21**	**5.53**

No subscription rights were outstanding at the end of the 2014 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 (2013: €2.50 per share). The ordinary shares from the capital increase are fully entitled to dividends only from 1 January 2015 and are therefore not included in the above calculation of earnings 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
As 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
As 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**
Dividend distribution							−70.3	−70.3		−70.3
Retention from 2013 profit available for distribution			85.0				−85.0	0.0		0.0
Addition from net profit for the year							146.5	146.5		146.5
Capital increase	16.0	365.2						381.2		381.2
Share-based payments		0.7	−0.3					0.4		0.4
Other changes			1.6	35.8	−33.4	0.9		4.9	0.0	4.9
As at 31.12.2014	**91.4**	**731.7**	**868.2**	**168.4**	**−92.0**	**2.2**	**146.5**	**1,916.4**	**0.0**	**1,916.4**

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2014	2013
Net profit	146.5	155.3
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	51.5	64.6
Net profit from the sale of investments and property, plant and equipment	–23.2	–10.5
Other adjustments (net)	–109.1	–92.3
Sub-total	65.7	117.1
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	149.0	–92.6
Loans and advances to customers	–1,681.3	–303.2
Securities held for trading	750.4	885.7
Other assets	–755.3	–66.6
Liabilities	480.7	388.6
Other liabilities	–22.6	–56.5
Total adjustments	–1,079.1	755.4
Interest receipts	246.7	233.5
Dividend receipts	4.2	3.5
Interest payments	–75.2	–70.3
Income taxes paid	–74.1	–85.2
Cash flow from operating activities	**–911.8**	**954.0**
Proceeds from the sale of		
Financial investments	5.8	7.4
Property, plant and equipment	0.7	1.0
Payments for the acquisition of		
Financial investments	–0.2	–0.4
Property, plant and equipment	–25.2	–15.4
Cash flow from investing activities	**–18.9**	**–7.4**
Dividends paid to HSBC Trinkaus & Burkhardt AG shareholders	–70.3	–70.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	102.5	–7.6
Net cash provided by the capital increase	381.2	0.0
Cash flow from financing activities	**413.4**	**–77.9**

Cash and cash equivalents at end of prior period	**1,133.7**	**265.0**
Cash flow from operating activities	–911.8	954.0
Cash flow from investing activities	–18.9	–7.4
Cash flow from financing activities	413.4	–77.9
Cash and cash equivalents at end of period	**616.4**	**1,133.7**

Notes to the Consolidated Financial Statements

Fundamental accounting policies

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

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2014 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 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, the recognition of provisions and other obligations, as well as the assessment of the control of structured entities within the meaning of IFRS 10. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessment. Estimates are subject to forecast uncertainties. In order to keep these to a minimum, available objective information as well as experience is drawn upon as much as possible. The estimation procedures used are reviewed regularly and adjusted if necessary.

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

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

At the end of 2014, HSBC Holdings plc had an indirect interest of 80.7 % (2013: 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 enterprises in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it can exercise a controlling influence.

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

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

As in the previous year, we have fully consolidated two special funds and one closed-end real estate fund. HSBC Trinkaus Private Wealth GmbH (Private Wealth), Düsseldorf, and HSBC Trinkaus Investment Management Ltd. (HSBC TIM), Hong Kong, were deconsolidated. Private Wealth was merged with HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf, and HSBC TIM was wound up. A detailed list of the consolidated companies can be found in Note 64.

2 Consolidation Principles

Consistent accounting policies were applied for similar business transactions and other events in similar circumstances throughout the Group.

Differences arising from the consolidation of investments are calculated on the basis of the value of the new companies on the date on which control was assumed.

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

3 Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21 (International Accounting Standards), 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 revaluation results of the corresponding instrument are treated.

Forward exchange transactions 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 respective 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 €2.2million (2013: €1.3million) and relate to a closed-end real estate fund in Australia.

4 Business Combinations

IFRS 3 determines the application of the acquisition method for business combinations where the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be valued 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 Non-Current Assets and Disposal Groups Held for Sale and Discontinued Operations

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

As specific business operations were discontinued in Luxembourg, there was no discontinued operation in accordance with IFRS 5 on the balance sheet date. On the one hand, the discontinued operations in Luxembourg included various business segments of the HSBC Trinkaus & Burkhardt Group – concentrated on Global Private Banking and HSBC Securities Services as a part of Global Banking & Markets – and did not at any time represent a separate major line of business of the Group. On the other, from a geographical perspective, the business operations in Luxembourg were not completely discontinued but continued partially. Despite the discontinuation of specific business operations, the remaining business operations in Luxembourg are likely to continue to generate sizeable income in the coming years. Accordingly, a disposal within the meaning of IFRS 5 does not exist. A disposal or distribution intention does not exist either. The discontinuation of certain business activities in Luxembourg had a negligible impact only on operating revenues in the Group in 2014. The discontinued operations in Luxembourg accounted for only €5.3million of the operating revenues of €686.7million generated in the Group in 2014.

No other circumstances existed at the balance sheet date that needed to comply with IFRS 5 accounting policies.

6 Financial Instruments

Recognition

Financial instruments are recognised 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) 7 / Balance sheet items	Measurement categories (IAS 39)
Measurement at amortised cost	Cash reserves	
	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 in the HSBC Trinkaus & Burkhardt 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, where available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, 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 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 that were not allocated to any of the three other measurement categories of IAS 39. These consist of securities (including registered bonds), acquired loans and advances and 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 investments 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 of 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 that were 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
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.

7 Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, the Bank applies the provisions for the reporting of hedge accounting in accordance with IAS 39. 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. The Bank 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 hedge accounting in the balance sheet in accordance with IFRS is linked to a series of requirements. These are related in particular to the documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must be documented at the time of entering into a hedging relationship: the identification of the hedge and the underlying transactions, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

The Bank uses a linear regression model to assess the effectiveness of the 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.

8 Net Loan Impairment and Other Credit Risk Provisions

The HSBC Trinkaus & Burkhardt Group 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 loss provisions on the one hand as net loan impairment provision on the assets side and on the other as provisions for 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 in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. To this effect, all borrowers are assigned a so-called customer risk rating (CRR) on the basis of a uniform, Group-wide 23-stage internal rating scale. The customer risk rating can be summarised in ten steps (CRR 1–10), whereas receivables that are in arrears and/or impaired are classified in CRR 9 and 10. The probability of default for each borrower can be derived from the CRR. On this basis, the expected loss for the individual loan exposures is estimated taking into account collateral 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 thus created 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 contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). Collective impairments are calculated as a product of the book value, the probability that the exposure will default within one year, the individual loss ratio and a factor that measures the delay in the flow of information.

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

9 Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The liquidity inflow is generally reported under the balance sheet item deposits by banks or customer accounts. Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet items 'loans and advances to banks' or 'loans and advances to customers'. Securities purchased under agreements to resell are not reported.

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

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

10 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 is recognised in the income statement.

11 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 the two amounts of the 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

12 Intangible Assets

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

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.

13 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).

14 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 2014, 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 % (2013: 0.00 %) of the subscribed capital.

15 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.

16 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.

17 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 were, over a defined volume, paid partly in cash and partly in the form of an allocation of shares of 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 the Federal Labour Court (Bundesarbeitsgericht – BAG). The resulting transfer obligation is revalued every month, whereby the valuation result is recognised directly in the capital reserves.

18 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. Fee income and expenses are recognised in the income statement at the time the service is performed.

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

19 Change in Accounting Policies

The accounting and valuation methods applied in preparing these consolidated financial statements are in line with those applied in the 2013 financial year, except with regard to the following:

As part of the growth initiative, we reviewed the model for determining the collectively assessed net loan impairment and other credit risk provisions. As a result of the expansion of the target ratings in the corporate banking business and the change in the structure of the credit portfolio associated with it, past default rates no longer allow an appropriate assessment of the current default risk in each case. We have therefore adjusted the procedure for calculating collectively assessed impairments/provisions to allow for probabilities of default derived from internal rating procedures as well as the internal loss ratios, each of which is validated against relevant market data. As a result, there was a shift in the allocation of collectively assessed net loan impairment and other credit risk provisions between the net loan impairment provision and provisions for credit risks, without resulting in any material change to the overall amount.

In addition, we significantly reduced the average delay in the flow of information until defaults already incurred are identified in line with the new credit monitoring processes. If this adjustment had already been made in the previous year, collectively assessed impairments and provisions would have amounted to €17.7million instead of the figure of €23.6million reported in the previous year. Assuming a corresponding lower collectively assessed total loan impairment provision and provisions for credit risks as at 31 December 2013, additions to collectively assessed impairments and provisions would have been €5.9million higher in 2014.

Given that this adjustment is a change in accounting estimate as defined in IAS 8, it is not necessary to adjust the previous year's figures.

IFRS 10, IFRS 11 and IFRS 12 were applied in the EU for the first time in the 2014 financial year as a result of the International Accounting Standards Boards (IASB) consolidation project. With the exception of the extended disclosures, the initial application did not lead to any changes in the scope of consolidation or in the accounting treatment for the HSBC Trinkaus & Burkhardt Group.

IFRS 10 focuses on the implementation of a single consolidation model for all entities that is based on the control exercised by the parent company over the subsidiary. This must be applied to parent-subsidiary relationships that are based on voting rights as well as on parent-subsidiary relationships resulting from other contractual agreements (e.g. with special purpose vehicles or structured entities).

The concept of consolidation in accordance with IFRS 10 comprises the following three elements that must be met cumulatively:

- power of disposition
- variable returns
- the possibility of influencing the variable returns by exercising the power of disposition

IFRS 11 differentiates between two types of joint agreements – 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 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 units. The additional information to be disclosed on non-consolidated structured units can be found in Note 65.

The IASB published changes to the provisions for offsetting financial assets and liabilities on 16 December 2011 in IAS 32 'Financial instruments: presentation', which serve to clarify the requirements for offsetting financial assets and liabilities. Netting requires that there is a current, unconditional right of set-off on the one hand and for the set-off to be on a net basis or brought about by means of a specially structured gross settlement procedure on the other. The amendments came into effect retrospectively for reporting periods that start on or after 1 January 2014. The amended standard was adopted into European law with the publication in the EU Official Journal on 29 December 2012. The amendments do not impact on the offsetting methodology used by the HSBC Trinkaus & Burkhardt Group. Similarly, contracts where offset claims arise only in case of insolvency only lead to offsetting on the balance sheet in the event of insolvency.

Against the backdrop of the requirements arising from the EU Regulation on OTC derivatives, central counterparties and transaction register (European Market Infrastructure Regulation, EMIR) due to changes to IAS 39, the IASB published new regulations in July 2013 on continuing hedge accounting pursuant to IAS 39. As a result of these changes, derivatives will continue to be a hedging instrument designated in a continuing hedging relationship, despite novation to a central counterparty as a result of legal or regulatory requirements. These amendments to IAS 39 have no effects on the consolidated financial statements.

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

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 from today's perspective.

20 Material Events Occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

21 Cash Reserve

in €m	31.12.2014	31.12.2013
Cash in hand	1.5	1.4
Balances held with central banks	614.9	1,132.3
Total	**616.4**	**1,133.7**

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.

22 Loans and Advances to Banks

in €m	31.12.2014	31.12.2013
Current accounts	380.5	519.2
Money market transactions	626.5	662.0
of which overnight money	78.0	46.4
of which term deposits	548.5	615.6
Other receivables	155.5	259.4
Collateral items in the derivatives trading business	332.3	203.2
Total	**1,494.8**	**1,643.8**
of which to domestic banks	265.8	198.7
of which to foreign banks	1,229.0	1,445.1

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

23 Loans and Advances to Customers

in €m	31.12.2014	31.12.2013
Current accounts	1,269.4	1,229.6
Money market transactions	595.5	529.5
of which overnight money	41.9	63.6
of which term deposits	553.6	465.9
Loan accounts	4,139.1	2,865.5
Other receivables	508.1	163.2
Collateral items in the derivatives trading business	26.8	69.8
Total	**6,538.9**	**4,857.6**
of which to domestic customers	4,193.1	3,029.5
of which to foreign customers	2,345.8	1,828.1

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.

The increase in other receivables results mainly from the securities repurchase agreements with Eurex.

24 Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2014	31.12.2013
Net loan impairment provision	29.6	33.4
Provisions for credit risks	13.1	5.9
Net loan impairment and other credit risk provisions	**42.7**	**39.3**

Please refer to the details in the section 'Change in Accounting Policies' in the notes to the consolidated financial statements for the adapted procedures for calculating the collectively assessed impairments.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2014	2013	2014	2013	2014	2013
As at 01.01	15.7	12.9	17.7	12.3	33.4	25.2
Reversals	0.0	0.8	2.5	0.0	2.5	0.8
Utilisation	1.4	0.2	0.0	0.0	1.4	0.2
Additions	0.1	4.6	0.0	5.4	0.1	10.0
Direct write-offs	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation effects/transfers	0.0	−0.8	0.0	0.0	0.0	−0.8
As at 31.12	14.4	15.7	15.2	17.7	29.6	33.4

Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2014	2013	2014	2013	2014	2013
As at 01.01	0.0	0.0	5.9	4.1	5.9	4.1
Reversals	0.8	0.0	0.0	0.0	0.8	0.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	7.2	1.8	7.2	1.8
Currency translation effects/transfers	0.8	0.0	0.0	0.0	0.8	0.0
As at 31.12	0.0	0.0	13.1	5.9	13.1	5.9

25 Trading Assets

in €m	31.12.2014	31.12.2013
Bonds and other fixed-income securities	2,155.0	2,484.0
of which:		
public-sector issuers	1,615.1	1,668.8
other issuers	539.9	815.2
of which:		
listed	2,125.0	2,454.9
unlisted	30.0	29.1
Equities and other non-fixed-income securities	1,872.3	1,393.4
of which:		
listed	1,837.1	1,337.4
unlisted	35.2	56.0
Tradable receivables	557.6	1,420.3
Positive market value of derivatives	2,742.9	1,449.9
of which:		
OTC derivatives	1,928.6	1,136.6
exchange-traded derivatives	814.3	313.3
Derivatives in hedging relationships	0.0	6.0
Total	**7,327.8**	**6,753.6**

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

26 Financial Assets

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

in €m	31.12.2014	31.12.2013
Bonds and other fixed-income securities	5,375.5	4,693.7
of which:		
public-sector issuers	3,042.1	2,130.2
other issuers	2,333.4	2,563.5
of which:		
listed	5,312.6	4,635.7
unlisted	62.9	58.0
Equities	26.9	29.9
Investment certificates	170.1	95.5
Promissory note loans	214.7	209.1
Investments	96.2	96.6
Total	**5,883.4**	**5,124.8**

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 price is as follows:

in €m	31.12.2014	31.12.2013
Bonds and other fixed-income securities	134.3	96.3
Equities	1.2	3.2
Investment certificates	18.2	14.1
Promissory note loans	25.3	21.4
Investments	40.4	35.2
Total	**219.4**	**170.2**

27 Share of Profit in Associates

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

in €m	2014	2013
Book value as at 01.01	**54.5**	**55.1**
Additions	0.0	0.0
Share of results of financial year	0.2	0.3
Impairments	0.0	0.0
Dividend distribution	–1.1	–0.9
Disposals	–33.3	0.0
Book value as at 31.12	**20.3**	**54.5**

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.

Taken individually, our share of profit in associates is immaterial for the Group.

All in all, the assets and liabilities of the companies consolidated at equity amount to €214.2million (2013: €549.2million) and €1.1million (2013: €1.0million), respectively, on pre-tax profit of €2.6million (2013: €3.9million).

The decline in the book value is due to the capital reduction at HSBC Trinkaus Gesellschaft for Kapitalmarktinvestments oHG.

28 Investment Overview

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2014	83.9	100.7	184.6	109.3
Increases	12.3	15.9	28.2	2.1
Disposals	0.0	16.0	16.0	8.1
Acquisition costs as at 31.12.2014	96.2	100.6	196.8	103.3
Depreciation as at 01.01.2014	34.8	66.0	100.8	93.4
Scheduled depreciation	1.1	11.8	12.9	7.0
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	0.0	14.5	14.5	7.7
Depreciation as at 31.12.2014	35.9	63.3	99.2	92.7
Carrying amount as at 31.12.2014	**60.3**	**37.3**	**97.6**	**10.6**
Carrying amount as at 31.12.2013	**49.1**	**34.7**	**83.8**	**15.9**

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
Scheduled 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**

Intangible assets include goodwill of €4.4million (2013: €4.4million). As in the previous year, foreign currency translation did not affect property, plant and equipment values.

29 Taxation Recoverable

in €m	31.12.2014	31.12.2013
Current taxation recoverable	1.5	5.2
Deferred taxation recoverable	12.1	5.7
Total	13.6	10.9

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

The losses incurred in the consolidated closed-end real estate fund and in conjunction with our withdrawal from Luxembourg could not be used for tax purposes, since it is highly unlikely that taxable income would be generated in the future that could be offset against tax-deductible losses. The losses carried forward for an indefinite period of time and temporary differences for which no deferred tax assets were formed amounted to a total of €53.3million, with international entities accounting for €40.5million thereof.

30 Other Assets

Other assets of €204million (2013: €164.5million) include one property in a consolidated closed-end real estate fund with a book value totalling €133.2million (2013: €124.3million). The increase is due, among other things, to a fund property the market value of which is AUD 6million higher. As in the previous year, no interest on borrowing was activated in the current year. Additionally, this item includes excess cover from our CTAs of €0.7million (2013: €1.5million) and other taxes of €1.0million (2013: €2.8million).

31 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2014	31.12.2013
Bonds and other fixed-income securities	371.7	247.9
Profit participation certificates	7.7	7.4
Total	379.4	255.3

32 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	31.12.2014		31.12.2013	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial liabilities	Fair value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	36.9	11.9	52.9	8.0
Total	36.9	11.9	52.9	8.0

The following table provides an overview of the securities received:

in €m	31.12.2014		31.12.2013	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial liabilities	Fair value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	250.0	250.0	43.4	43.7
of which may be sold or pledged	250.0	–	43.4	–
of which are already sold or pledged	0.0	–	0.0	–
Securities lending transactions	69.1	0.8	62.2	14.3
of which may be sold or pledged	47.7	–	50.0	–
of which are already sold or pledged	21.4	–	12.2	–
Total	319.1	250.8	105.6	58.0

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 'Assets Pledged as Collateral'). The transactions were carried out at normal market conditions.

The increase in the volume of securities obtained in repurchase transactions is related to the reporting date and results from Eurex transactions.

33 Deposits by Banks

in €m	31.12.2014	31.12.2013
Current accounts	475.4	648.1
Money market transactions	100.9	270.8
of which overnight money	0.0	2.8
of which term deposits	100.9	268.0
Other liabilities	184.9	145.3
Collateral items in the derivatives trading business	114.1	205.2
Total	**875.3**	**1,269.4**
of which domestic banks	556.1	439.1
of which foreign banks	319.2	830.3

As at 31 December 2014, deposits by banks secured by charges on real property amounted to €122.4million (2013: €52.8million).

34 Customer Accounts

in €m	31.12.2014	31.12.2013
Current accounts	11,140.4	9,149.9
Money market transactions	1,498.9	2,642.4
of which overnight money	326.6	396.4
of which term deposits	1,172.3	2,246.0
Savings deposits	58.8	57.2
Other liabilities	395.8	369.6
Total	**13,093.9**	**12,219.1**
of which domestic customers	11,678.3	10,681.7
of which foreign customers	1,415.6	1,537.4

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

35 Certificated Liabilities

Certificated liabilities relate to bonds issued in the amount of €10million (2013: €10million).

36 Trading Liabilities

in €m	31.12.2014	31.12.2013
Negative market value of derivatives	2,578.1	1,881.3
Promissory note loans, bonds, certificates and warrants	2,719.2	2,114.5
Delivery obligations arising from securities sold short	6.9	53.1
Derivatives in hedging relationships	115.1	46.9
Derivatives held in the banking book	5.2	4.1
Total	5,424.5	4,099.9

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

37 Provisions

in €m	As at 01.01.2014	Utilisation	Reversals	Additions / compounding	Transfers / other	Actuarial result	As at 31.12.2014
Provisions for pensions and similar obligations	25.3	4.1	2.8	4.3	–0.8	49.7	71.6
Provisions related to human resources	0.2	0.2	0.0	0.3	0.0	0.0	0.3
Provisions for credit risks	5.9	0.0	0.0	7.2	0.0	0.0	13.1
Provisions for other taxes	1.1	0.1	0.0	0.3	0.0	0.0	1.3
Other provisions	110.2	42.7	13.8	28.8	–1.6	0.0	80.9
Provisions	**142.7**	**47.1**	**16.6**	**40.9**	**–2.4**	**49.7**	**167.2**

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

In addition, these items include the obligations in the amount of €27.1million (2013: €14.3million) from the lifetime working account model. The increase in the obligations compared with the previous year is due to our staff making greater use of 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 'Net Loan Impairment and Other Credit Risk Provisions').

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

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

No material legal disputes and associated litigation risks were pending as at 31 December 2014.

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 current open regulation for new business funded by the employer (VO 2013), the Bank pledges capital contributions to its employees in the event of retirement, invalidity and death. The commitment is a defined contribution scheme; the benefits arise as capital components from the committed contribution through a guaranteed rate of interest. The amount of the guaranteed return can be adjusted to a changed interest rate environment for future components. The contribution period is ten years after the end of the reporting period. The Bank may at any time determine whether 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 these regulations receive benefits in the form of life-long 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 life-long 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 for these, so that the employee receives exactly the benefit built up under the reinsurance policy.

(d) BVV Versicherungsverein des Bankgewerbes a.G., Berlin

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 €5.6million (2013: €5.3million).

Individual commitments

Final salary-base 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 the Bank and six 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, a further addition to the plan assets is intended in order to reduce the net obligations.

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 €225.2million during the period under report (of which benefit recipients €64.9million); the DBO of the individual commitments amounts to €76.4million (of which benefit recipients €45.3million). The DBO of the open pension fund amounts to €0.4million, as this regulation only came into effect as at 1 July 2013. Capital commitments account for €40.9million.

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 %	31.12.2014	31.12.2013
Long-term base rate of interest	2.12	3.47
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	2.8	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 2.12 % (2013: 3.47 %) during the year under report on a 19-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. The significant reduction in the base rate of interest compared with the previous year is attributable to the consistently lower interest rate level.

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. The sensitivities for the valuation parameters, expected increase in the contribution ceiling for social insurance, are no longer shown for reasons of irrelevance.

Measurement parameter as at 31.12.2014	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	2.12 %	+ 1.00 percentage points	– 16.5 %
Base rate of interest	2.12 %	– 1.00 percentage points	21.8 %
Development of salaries	3.00 %	– 0.50 percentage points	– 3.1 %
Development of salaries	3.00 %	+ 0.50 percentage points	3.5 %
Pension increase	2.00 %	– 0.25 percentage points	– 2.9 %
Pension increase	2.00 %	+ 0.25 percentage points	3.0 %
Life expectancy	Pursuant to FT 2005 G	+ 1 year for a person currently aged 65	3.7 %

Measurement parameter as at 31.12.2013	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 %
Life expectancy	Pursuant to FT 2005 G	+ 1 year for a person currently aged 65	2.7 %

Development of pension obligations

in €m	2014	2013
Pension obligations as at 31.12 (before adjustments)	**292.6**	**278.1**
Retrospective adjustment	**0.0**	**–0.3**
Pension obligations as at 01.01	**292.6**	**277.8**
Service costs	15.8	11.3
Interest expense	8.7	9.1
Past service costs	–2.1	0.0
Settlements	–0.6	0.0
Pensions paid	–10.4	–10.8
Transfers and others	8.2	6.1
Change in actuarial gains and losses	58.8	–0.9
from adjustment to the obligations	–5.4	2.4
from changes to the demographic assumptions	0.0	0.0
from changes to the financial assumptions	64.2	–3.3
Pension obligations as at 31.12	**371.0**	**292.6**

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

Distribution of pension obligations

in €m	2014	2013
Assets	222.9	168.0
of which vesting	148.3	112.2
Vested benefits of former employees	37.9	35.5
Beneficiaries	110.2	89.1
Total	**371.0**	**292.6**

Breakdown of pension obligations

in €m	2014	2013	2012	2011	2010
Non-funded pension obligations	21.0	17.1	14.8	10.5	9.9
Funded pension obligations					
Present value of the pension obligations	350.0	275.5	263.0	202.3	196.1
Fair value of the plan assets	300.1	268.8	251.4	196.9	203.8
Balance	49.9	6.7	11.6	5.4	–7.7
of which plan shortfall	50.6	8.2	13.2	6.4	2.8
of which plan excess	0.7	1.5	1.6	1.0	10.5
Total pension obligations	71.6	25.3	28.0	16.9	12.8
Remeasurement of net pension obligations					
from plan assets (before taxes)	0.2	–9.8	–12.5	–32.8	–16.8
from plan obligations (before taxes)	–133.5	–74.7	–75.6	–23.6	–26.9

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 €92.0million after taxes (2013: €58.6million).

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	2015	2016	2017	2018	2019	2020–2024
Future cash flows	8.8	9.1	9.0	9.3	9.2	53.4

Development of the fair value of plan assets

in €m	2014	2013
Fair value of plan assets as at 01.01	268.8	251.4
Additions/withdrawals	10.8	6.3
Reversals	0.0	0.0
Interest income	10.5	8.5
Actual income excluding interest income	10.0	2.6
Fair value of plan assets as at 31.12	300.1	268.8

We show the addition to the plan assets from the lifetime working 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	2014	2013
Bonds and other fixed-income securities	86.2	87.0
Equities	20.8	20.2
Discount/index certificates	56.1	66.0
Reinsurance claims from life insurance	18.5	18.5
Investment funds	67.9	54.2
Closed-end real estate funds	4.0	4.0
Other	46.6	18.9
Fair value of plan assets as at 31.12	**300.1**	**268.8**

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

38 Income Tax Liabilities

in €m	31.12.2014	31.12.2013
Current taxation	32.2	39.9
Deferred taxation	0.0	0.0
Total	**32.2**	**39.9**

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 burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 51).

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	31.12.2014	31.12.2013	Change
	As shown in the balance sheet	As shown in the balance sheet	
Trading portfolio*	3.8	3.8	0.0
Share-based payments	2.8	3.2	–0.4
Intangible assets	2.3	2.3	0.0
Loss carried forward	0.0	0.0	0.0
Derivatives held in the banking book	0.0	0.0	0.0
Buildings	0.0	–0.1	0.1
Net loan impairment provision	–8.4	–8.2	–0.2
Pensions	–10.6	–8.2	–2.4
Financial assets	–2.2	–1.8	–0.4
Provisions	–8.2	–8.8	0.6
Recognised in the income statement	**–20.5**	**–17.8**	**–2.7**
Financial instruments	51.0	37.6	13.4
Foreign currency translation	0.2	0.5	–0.3
Pensions	–42.9	–26.0	–16.9
Without effect on income	**8.3**	**12.1**	**–3.8**
Deferred taxes	**–12.2**	**–5.7**	**–6.5**
of which taxation recoverable	–12.2	–5.7	–6.5
of which taxation	0.0	0.0	0.0

* Balance from measurement differences in all trading activities

39 Other Liabilities

in €m	31.12.2014	31.12.2013
Liabilities from other taxes	16.7	14.4
Deferred income	13.9	8.1
Accrued interest on		
subordinated liabilities	5.1	6.7
participatory capital	4.9	4.9
Other liabilities	169.5	195.2
Total	**210.1**	**229.3**

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.

40 Subordinated Capital

in €m	31.12.2014	31.12.2013
Subordinated liabilities (promissory note loans, bonds)	348.2	245.7
Participatory capital	100.0	100.0
Total	**448.2**	**345.7**

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 €300million. 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 the Bank have been met. All subordinated claims have equal priority. No subordinated liabilities can be terminated prematurely by creditors. Profit participation certificates can be terminated prematurely by the Bank if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of €318.2million (2013: €317.2million) is used to calculate the liable capital in accordance with the CRR.

The increase in subordinated liabilities results from HSBC Bank plc's subordinated capital contribution of €150million in the second quarter of 2014.

For the 2014 financial year, interest payable amounts to €12.0million (2013: €12.6million) on subordinated liabilities and to €4.9million (2013: €4.9million) on participatory capital.

Interest and repayment of subordinated liabilities

Interest rate	Nominal amount (€m) 31.12.2014	Nominal amount (€m) 31.12.2013
4 % to less than 5 %	100.2	100.2
Over 5 % up to 6 %	98.0	145.5
Fixed rates	198.2	245.7
Variable rates	150.0	0.0
Total	**348.2**	**245.7**

Repayment	Nominal amount (€m) 31.12.2014	Nominal amount (€m) 31.12.2013
Up to 1 year	0.0	47.5
Over 1 year up to 5 years	93.2	65.2
Over 5 years	255.0	133.0
Total	**348.2**	**245.7**

41 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG's subscribed capital as at 31 December 2014 amounted to €91.4million (2013: €75.4million) and is divided into 34,088,053 (2013: 28,107,693) no-par-value shares.

The Management Board is authorised to increase the share capital by a maximum of €21.7million up to 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 €37.7million 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	2014	2013
Net valuation reserve as at 01.01	**132.6**	**160.6**
Disposals/additions (gross)	−4.7	−19.2
Market fluctuations (gross)	47.9	−21.9
Impairments (gross)	6.0	−0.7
Deferred taxes	−13.4	13.8
Net valuation reserve as at 31.12	**168.4**	**132.6**

HSBC Trinkaus & Burkhardt 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 the HSBC Group's publications under the 'Investor Relations' heading on its website (www.hsbc.com).

42 Minority Interests

No minority interests are reported in HSBC Trinkaus & Burkhardt Group.

Notes to the Consolidated Income Statement

43 Net Interest Income

in €m	2014	2013
Interest income	**249.9**	**236.1**
From loans and advances to banks	13.8	17.0
Money market transactions	9.7	12.5
Other interest-bearing receivables	3.6	4.4
Reverse repos	0.5	0.1
From loans and advances to customers	122.1	96.3
Money market transactions	9.2	8.5
Other interest-bearing receivables	112.9	87.8
From financial assets	114.0	122.8
Interest income	108.8	117.8
Dividend income	3.1	2.6
Income from subsidiaries	2.1	2.4
Interest expense	**75.2**	**70.3**
From deposits by banks	25.7	22.3
Money market transactions	0.4	1.1
Other interest-bearing deposits	25.3	21.2
From customer accounts	20.6	20.1
Money market transactions	3.8	5.2
Other interest-bearing deposits	16.8	14.9
From certificated liabilities	0.4	0.4
From subordinated capital	16.9	17.4
Other	11.6	10.1
Net interest income	**174.7**	**165.8**

Net interest income increased by €8.9million overall to €174.7million, thanks to the success of the growth initiative.

Net interest income from the deposit-taking business remains under significant pressure. Margins deteriorated again on slightly higher volumes due to the central bank interest rate policy and a positive interest margin can no longer be achieved in the Bank's deposit-taking business. Interest income from the lending business improved considerably compared to the previous year due to the higher volume of business. However, margins in the lending business declined further compared to the previous year on unchanged credit ratings.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of €0.5million (2013: €0.6million).

44 Net Loan Impairment and Other Credit Risk Provisions

in €m	2014	2013
Additions	7.3	11.8
Reversals	3.3	0.8
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.1
Total	**4.0**	**10.9**

After net loan impairment and other credit risk provisions of €10.9million in the previous year, this item amounted to €4.0million in the 2014 financial year. There was an increase in individually assessed impairments of €0.1million and a release of €0.8million. A net increase in collectively assessed impairments of €4.7million was required owing to the increased lending volume in the course of our growth strategy as well as the slight change in the portfolio structure. For the changes in estimates regarding the calculation of the collectively assessed impairments required in the wake of the growth strategy, please see the Note 'Change in Accounting Policies'. Our conservative orientation is unchanged in relation to the assessment of default risks.

45 Share of Profit in Associates

The share of profit in associates amounted to €0.2million (2013: €0.3million).

46 Net Fee Income

in €m	2014	2013
Securities transactions	210.6	216.5
Foreign exchange transactions and derivatives	85.1	92.6
Lending	28.7	23.0
Issuing and structuring business	14.8	10.2
Payments	13.4	12.9
Alternative investments	10.9	11.9
International business	8.8	9.7
Investment banking	8.7	13.2
Other fee-based business	8.7	11.1
Total	**389.7**	**401.1**

Net fee income of €389.7million was down slightly compared to the previous year's figure of €401.1million.

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.

The result generated in the fee-based business with foreign exchange and derivatives was down on the previous year due to the fact that the fluctuations on the foreign exchange markets remained within narrow limits for a large part of the year under report.

We once again succeeded in significantly improving our results in the lending business; the growth in our corporate banking business was therefore reflected in profitable fee-based business. The marked increase in the results in the issuing business reflects the Bank's still strong market position as lead manager with respect to new bond issues as well as the high level of activity on the part of our clients to optimise their refinancing structure with interest rates on a historically low level.

47 Net Trading Income

in €m	2014	2013
Equities and equity/index derivatives	48.5	39.9
Bonds and interest rate derivatives	55.6	52.8
Foreign exchange	2.1	6.2
Derivatives held in the banking book	1.1	–3.2
Total	**107.3**	**95.7**

Net trading income rose by €11.6million to €107.3million.

Income generated from the fixed-income and interest rate derivatives business (+5.3%) as well as equities and equity/index derivatives (+21.6%) improved again.

48 Administrative Expenses

in €m	2014	2013
Staff expenses	301.3	286.2
Wages and salaries	252.5	238.7
Social security costs	30.7	29.4
Expenses for retirement pensions and other employee benefits	18.1	18.1
Other administrative expenses	172.8	173.7
Depreciation of property, plant and equipment and of intangible assets	19.9	26.3
Total	**494.0**	**486.2**

Administrative expenses rose by €7.8million, from €486.2million to €494.0million. The adjustment in administrative expenses in the previous year for the contributions of the Luxembourg unit resulted in a 20.4 % increase due to the investment in staff and resources in the course of the growth initiative.

While staff expenses were up by €15.1million compared to the previous year, other administrative expenses were reduced by €0.9million and write-downs by €6.4million.

The significant increase in staff numbers in the 2014 financial year was also reflected in higher staff expenses, despite the discontinuation of staff costs in Luxembourg.

On the other hand, other administrative expenses were maintained below the previous year's level. The increased costs incurred in conjunction with the growth initiative are more than offset by the expenses in Luxembourg that were particularly high in the 2013 financial year and are no longer included in the financial year under report.

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

in €m	2014	2013
Expenses for defined benefit plans	11.9	11.9
of which current service costs	15.8	11.3
of which interest expense	8.7	9.1
of which estimated income from the plan assets	–10.5	–8.5
of which past service costs	–2.1	0.0
Expenses for defined contribution plans	5.6	5.3
Other expenses for retirement provisions	0.6	0.9
Total	**18.1**	**18.1**

49 Income from Financial Assets

Income from financial assets improved from €16.3million to €23.6million. Gains on the disposal of securities, in particular corporate bonds whose where credit spreads have fallen further, were offset by write-downs on investment in real estate and on securities.

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	2014	2013
Income statement		
Net gain/loss from disposal	31.0	16.1
Tax expenses	–8.1	–3.0
Net realisation gain in the income statement	**22.9**	**13.1**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	–31.0	–16.1
of which volatility in the year under report	–3.7	–3.9
of which volatility in previous years	–27.3	–12.2
Performance of corresponding tax expenses		
Change from disposals (derecognition)	8.1	3.0
of which volatility in the year under report	0.2	–0.8
of which volatility in previous years	7.9	3.8

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

in €m	2014	2013
Income statement		
Impairments/write-ups on financial instruments	–7.4	0.2
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	6.0	–0.2
of which volatility in the year under report	6.0	–0.2
of which volatility in previous years	0.0	0.0
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–2.0	0.2
of which volatility in the year under report	–2.0	0.2
of which volatility in previous years	0.0	0.0

50 Net Other Income

in €m	2014	2013
Other operating income	38.0	53.7
Other operating expenses	22.1	16.8
Net other operating income	**15.9**	**36.9**
Other income	0.4	0.3
Other expenses	0.2	0.2
Other net income	**0.2**	**0.1**
Net other income	**16.1**	**37.0**

Net other operating income of €15.9million (2013: €36.9million) includes mainly charges from winding up our business with closed-end real estate funds, net income from the release of provisions and rental income that is generated above all from our real estate project in Australia. The previous year's figure was defined by particularly high income from the release of provisions for onerous contracts and pending litigation. The hedge result amounts to €–1.5million after €–0.2million the year before.

Other net income amounts to €0.2million after €0.1million the previous year.

51 Tax Expenses

in €m	2014	2013
Current taxes	68.4	71.8
of which off-period	0.8	1.0
Deferred taxes from change in limited valuation differences	–1.2	–8.0
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**67.1**	**63.8**

Tax expenses of €67.1million in the financial year under report are €3.3million higher than in the previous year. This gives a tax rate of 31.4 % after 29.1 % the previous year. Most of the taxes are paid in Germany.

The following table shows the relationship between income taxes derived from net profit for the year before taxes and the actual income tax reported:

in €m	2014	2013
Pre-tax profit	213.6	219.1
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	67.1	68.8
Tax rate differential on income proportions subject to taxation outside of Germany	0.0	0.5
Effect from unused losses carried forward	0.0	7.3
Taxes for previous years	0.8	1.0
Corporation tax modification	3.2	– 10.1
Trade tax modification	0.9	1.0
Miscellaneous	–4.9	–4.8
Reported taxation	**67.1**	**63.8**

52 Income Statement by Measurement Category

The following overview includes net profit or net loss for every IAS 39 measurement category of financial assets and liabilities. Net profits/losses are a net earnings indicator comprising on the one hand changes in market value recognised in the income statement, 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 31.12.2014 in €m	Loans and receiv-ables	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	135.6	0.3	0.0	0.0	114.0	0.0	0.0	249.9
Interest expense	0.0	0.0	0.0	0.0	0.0	−72.5	−2.7	−75.2
Net fee income								
Fee income	31.0	0.0	0.8	0.0	0.0	0.0	728.6	760.4
Fee expenses	−2.3	0.0	−2.4	0.0	0.0	0.0	−366.0	−370.7
Net trading income	0.0	0.0	104.0	0.0	3.3	0.0	0.0	107.3
Income from financial assets	0.0	0.0	0.0	0.0	31.0	0.0	0.0	31.0
Net other income	0.0	0.0	0.0	−69.7	68.2	0.0	17.6	16.1
Impairments								
Net impairment and other credit risk provisions	2.4	0.0	0.0	0.0	0.0	0.0	−6.4	−4.0
Income from financial assets	0.0	0.0	0.0	0.0	−7.4	0.0	0.0	−7.4
Total	**166.7**	**0.3**	**102.4**	**−69.7**	**209.1**	**−72.6**	**371.1**	**707.4**

Measurement category 31.12.2013 in €m	Loans and receiv-ables	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	0.0	0.0	122.7	0.0	0.0	236.1
Interest expense	0.0	0.0	0.0	0.0	0.0	−69.3	−1.0	−70.3
Net fee income								
Fee income	24.3	0.0	2.0	0.0	0.0	0.0	739.4	765.7
Fee expenses	−1.3	0.0	−1.1	0.0	0.0	0.0	−362.2	−364.6
Net trading income	0.0	0.0	95.7	0.0	0.0	0.0	0.0	95.7
Income from financial assets	0.0	0.0	0.0	0.0	16.1	0.0	0.0	16.1
Net other income	0.0	0.0	0.0	28.7	−28.9	0.0	37.2	37.0
Impairments								
Net impairment and other credit risk provisions	−9.1	0.0	0.0	0.0	0.0	0.0	−1.8	−10.9
Income from financial assets	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
Total	**123.6**	**3.7**	**96.6**	**28.7**	**110.1**	**−69.3**	**411.6**	**705.0**

Other Notes

53 Notes to the Cash Flow Statement

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

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

The summary item 'Other adjustments (net)' essentially comprises net changes to deferred taxes, 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 €616.4million (2013: €1,133.7million) 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 flow from operating activities

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

Consolidated net profit of €146.5million (2013: €155.3million) is the input figure for the cash flow statement. Gross cash flow of €65.7million (2013: €117.1million), which is reported as a sub-total, shows the operating cash flow surplus before any changes in working capital. The cash flows from operating activities also take into account the changes in funds employed in operations.

Cash flow from investing activities

Spending on the acquisition of property, plant and equipment totalled €25.2million in the 2014 financial year (2013: €15.4million). The sale of property, plant and equipment realised €0.7million (2013: €1million) for the Group. In the financial year under report, the sale and purchase of equity-linked financial investment instruments resulted in payments received of €5.6million (2013: €7.0million).

Cash flow from financing activities

Cash flow from financing activities includes the dividend of €70.3million for the 2014 financial year (2013: €70.3million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Changes in funds resulting from subordinated capital accounted for net inflows of €102.5million (2013: outflows of €7.6million). In addition, our cash and cash equivalents increased by €381.2million in the course of the capital increase in the fourth quarter of 2014.

54 Customer Groups

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

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

In addition to pure asset management and advisory services, Global Private Banking 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 MME 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, as well as the HSBC Securities Services. Apart from the lending business and investment banking, Capital Financing mainly includes the origination function on the primary market, while Markets comprises the distribution and trading activities for capital market products on the secondary market. HSBC Securities Services comprises custody, clearing and custodian bank services, as well as being responsible for fund administration within the Group.

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

In addition to non-recurring special effects, such as after the withdrawal from certain business activities in Luxembourg, Central only reports 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 2014 and 2013 is as follows:

in €m		GPB	CMB	GB & M	AM	Central / Consoli-dation	Total
Net interest income	2014	15.0	84.2	73.2	4.6	−2.3	174.7
	2013	20.1	69.6	70.7	5.6	−0.2	165.8
Net loan impairment provision	2014	−0.2	4.1	1.5	0.0	−1.4	4.0
	2013	0.0	8.4	2.4	0.0	0.1	10.9
Net interest income after net loan impairment provision	2014	15.2	80.1	71.7	4.6	−0.9	170.7
	2013	20.1	61.2	68.3	5.6	−0.3	154.9
Share of profit in associates	2014	0.0	0.0	0.1	0.0	0.1	0.2
	2013	0.0	0.1	0.2	0.0	0.0	0.3
Fee income	2014	52.5	51.1	245.3	40.7	0.1	389.7
	2013	68.5	44.3	246.9	41.4	0.0	401.1
Operating trading income	2014	1.7	5.1	92.9	1.2	5.3	106.2
	2013	4.3	7.1	87.4	2.2	−2.1	98.9
Income after net loan impairment provision	2014	69.4	136.3	410.0	46.5	4.6	666.8
	2013	92.9	112.7	402.8	49.2	−2.4	655.2
Administrative expenses	2014	53.1	89.7	308.9	27.8	14.5	494.0
	2013	65.4	64.8	291.8	28.5	35.7	486.2
of which depreciation and amortisation	2014	0.7	1.3	2.2	0.2	15.5	19.9
	2013	0.8	1.2	2.3	0.2	21.8	26.3
Income from financial assets	2014	2.3	4.6	13.6	1.5	1.6	23.6
	2013	2.2	2.9	9.6	1.2	0.4	16.3
Results from derivatives in the banking book	2014	0.0	0.0	0.0	0.0	1.1	1.1
	2013	0.0	0.0	0.0	0.0	−3.2	−3.2
Net other income	2014	1.2	1.9	7.9	0.6	4.5	16.1
	2013	3.7	2.1	10.0	0.9	20.3	37.0
Pre-tax profit	**2014**	**19.8**	**53.1**	**122.6**	**20.8**	**−2.7**	**213.6**
	2013	**33.4**	**52.9**	**130.6**	**22.8**	**−20.6**	**219.1**
Taxation	2014	6.2	16.7	38.5	6.5	−0.8	67.1
	2013	10.4	16.6	41.0	7.1	−11.3	63.8
Net profit for the year	**2014**	**13.6**	**36.4**	**84.1**	**14.3**	**−1.9**	**146.5**
	2013	**23.0**	**36.3**	**89.6**	**15.7**	**−9.3**	**155.3**
Change versus previous year in %		**−40.9**	**0.3**	**−6.1**	**−8.9**	**−79.6**	**−5.7**

In addition to the weak economic trend in the large Southern European countries of the Eurozone, the sanction imposed on Russia in the second and third quarter as well as the military action in the Middle East led to caution in relation to investment decisions associated with a low demand for credit among German companies. The robust domestic demand due to the favourable situation on the German labour market coupled with the weaker euro vis-à-vis the important trading currencies and the sharp decline in the price of oil led to a positive acceleration in economic development in Germany towards year-end, so that the economic forecast for 2015 is positive. The ECB's extremely low interest rate policy with negative deposit rates burdened the income statement in 2014. Within the Bank, the implementation of the growth strategy still gave rise to high up-front expenses in many areas. The fact that net income declined only slightly in 2014 under these general conditions documents the Bank's balanced business structure and stability of its client-oriented business model.

While the Global Private Banking, Global Banking & Markets and Asset Management segments were unable to reach the previous year's results, Commercial Banking succeeded in offsetting higher costs within the scope of the growth initiative through improvements in revenues. The repeat of the previous year's results in the business with CMB clients, despite the advance effects on the cost side, documents the initial successes of this expansion strategy in the business with internationally active corporate MME customers. Central reports for the most part only the regulatory cost items and reconciliation items, which arose from the withdrawal from certain business activities in Luxembourg, namely fund administration and offshore private banking.

The Global Banking & Markets segment continued to generate the highest contribution to results in the Bank. Thanks to the increasing intensification of the cooperation within the HSBC Group, it remained very successful compared with the same period of the previous year with regard to fee income generated from Debt Capital Markets and Custody transactions as well as net interest and fee income in the lending business. This more than offset the loss of revenue in Luxembourg from the custodian bank and fund administration functions. Revenues in Fixed Income Sales declined across the entire market. However, the increase in revenues was not sufficient to completely offset the higher administration expenses stemming from the implementation of the growth initiative.

The Commercial Banking segment achieved a more than proportionately strong increase in revenues thanks to the mainly volume-based increase in interest income in the lending and international business with a simultaneous decline in net loan impairment provision.

As a result, the high up-front costs relating to staff and material expenses incurred as part of the growth initiative, in accordance with the strategy, were already completely offset in the first year.

The business opportunities that ceased with the withdrawal from certain business activities in Luxembourg are material to the declining revenues in the Global Private Banking segment. This structural effect could not be recouped by additional business activity with customers in Germany. The activities of some customers in Germany in the foreign exchange business were also significantly lower. At the same time, costs also fell as a result of the discontinuation of the private banking activities in Luxembourg.

The Asset Management segment was also unable to otherwise offset the discontinuation of revenues in the mutual fund business as a result of the sale of the Luxembourg fund business, especially since the previous year's result benefited from positive non-recurring items at the beginning of 2013.

Commercial Banking and Global Banking & Markets, which are the focus of the growth strategy, reported a considerable increase in their administrative expenses, while Global Private Banking benefited from falling costs associated with the withdrawal from Luxembourg. Central included costs incurred in the previous year associated with the withdrawal from certain business activities in Luxembourg, the considerable reduction of which will only be partially eroded this year by the higher regulatory costs.

The segment results are broken down into net interest, net fee and net trading income. Administrative expenses are allocated to the relevant segment as far as possible, according to the principle of causation.

		GPB	CMB	GB&M	AM	Central / Consoli-dation	Total	Adjust-ments	As at balance sheet date
Cost efficiency ratio in %	2014	73.0	61.1	71.3	57.2	0.0	69.4	0.0	69.4
	2013	66.2	51.4	68.7	55.6	0.0	67.9	0.0	67.9
Assets* in €m	2014	326.8	3,452.3	8,689.4	0.0	8,002.2	20,470.7	1,707.1	22,177.8
	2013	509.0	2,673.0	6,721.4	0.0	9,733.7	19,637.1	172.6	19,809.7
Liabilities* in €m	2014	2,084.7	4,142.2	8,213.8	0.0	5,105.6	19,546.3	67.5	19,613.8
	2013	2,790.0	4,326.0	7,034.3	0.0	5,186.0	19,336.3	– 1,508.7	17,827.6
Risk items for mandatory inclusion* in €m	2014	469.0	5,107.0	6,137.0	112.0	1,272.2	13,097.2	1,957.8	15,055.0
	2013	432.0	3,738.0	4,388.0	123.0	1,374.2	10,055.2	1,069.8	11,125.0
Attributable shareholders' equity* in €m	2014	96.9	560.7	663.7	61.2	118.9	1,501.4	415.0	1,916.4
	2013	118.2	448.8	513.8	87.3	161.5	1,329.6	124.1	1,453.7
Employees	2014	288	521	1,707	119	15	2,650	0	2,650
	2013	389	344	1,664	130	0	2,527	0	2,527
Return on equity before taxes in %	2014	20.4	9.5	18.5	34.0	0.0	14.4	0.0	14.4
	2013	28.3	11.8	25.4	26.1	0.0	16.5	0.0	16.5

* Annual average

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

The cost efficiency ratio is a measure of the segments' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment provision. This ratio deteriorated significantly due to the non-recurring effects in 2014 from the planned high up-front costs as part of the growth initiative and the withdrawal from certain business activities in Luxembourg. The cost efficiency ratio in the Group increased from 67.9 % in 2013 to 69.4 % in 2014, largely as a result of these non-recurring effects.

The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory related 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 significant increases in risk items for mandatory inclusion. These increased slightly in Global Private Banking, while falling in Asset Management.

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	2014	211.8	1.7	0.1	213.6
	2013	251.1	–32.1	0.1	219.1

Long-term segment assets amounted to €241.3million (2013: €223.9million) during the year under report and were attributable solely to Germany, while the Luxembourg unit still accounted for €0.6million the year before.

55 Measurement Classes

The following tables provide an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.2014 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	0.0	616.4	0.0	0.0	616.4
Loans and advances to banks	1,494.8	0.0	0.0	0.0	1,494.8
Loans and advances to customers *	6,509.3	0.0	0.0	0.0	6,509.3
Trading assets	0.0	0.0	7,327.8	0.0	7,327.8
Financial assets	0.0	35.0	0.0	5,848.4	5,883.4
Other financial instruments	0.9	53.5	0.0	0.0	54.4
Total financial instruments	**8,005.0**	**704.9**	**7,327.8**	**5,848.4**	**21,886.1**

Liabilities as at 31.12.2014 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other liabilities	Held-for-trading	
Deposits by banks	875.3	0.0	875.3
Customer accounts**	13,093.9	0.0	13,093.9
Certificated liabilities	10.0	0.0	10.0
Trading liabilities	0.0	5,424.5	5,424.5
Subordinated capital	448.2	0.0	448.2
Other financial instruments	80.8	0.0	80.8
Total financial instruments	**14,508.2**	**5,424.5**	**19,932.7**

* 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 31.12.2013 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	0.0	1,133.7	0.0	0.0	1,133.7
Loans and advances to banks	1,643.8	0.0	0.0	0.0	1,643.8
Loans and advances to customers*	4,824.2	0.0	0.0	0.0	4,824.2
Trading assets	0.0	0.0	6,753.6	0.0	6,753.6
Financial assets	0.0	39.1	0.0	5,085.7	5,124.8
Other financial instruments	5.6	19.0	0.0	0.0	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	0.0	1,269.4
Customer accounts**	12,219.1	0.0	12,219.1
Certificated liabilities	10.0	0.0	10.0
Trading liabilities	0.0	4,099.9	4,099.9
Subordinated capital	345.7	0.0	345.7
Other financial instruments	103.7	0.0	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.

56 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 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 the prices of wich 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 the input parameters of wich 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 Controlling 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 existing valuation methods compared with 31 December 2013. Trading in derivatives on commodities (precious and industrial metals) also commenced in 2014.

The following overviews show the allocation of the items measured at fair value to the fair value levels.

31.12.2014 in €m	Level 1	Level 2	Level 3	Measured at cost	Total
Trading assets	**2,617.1**	**4,674.5**	**36.2**	**0.0**	**7,327.8**
Bonds and other fixed-income securities	0.0	2,155.0	0.0	0.0	2,155.0
Equities and other non-fixed-income securities	1,836.2	0.0	36.1	0.0	1,872.3
Tradable receivables	0.0	557.6	0.0	0.0	557.6
Positive market value of derivatives	780.9	1,961.9	0.1	0.0	2,742.9
of which interest rate transactions	0.0	1,171.1	0.0	0.0	1,171.1
of which foreign exchange-based transactions	0.0	749.3	0.1	0.0	749.4
of which equity / index-based transactions	780.6	39.0	0.0	0.0	819.6
of which commodity-related transactions	0.3	2.5	0.0	0.0	2.8
Derivatives in hedging relationships	0.0	0.0	0.0	0.0	0.0
Financial assets	**228.5**	**5,598.4**	**21.5**	**35.0**	**5,883.4**
Bonds and other fixed-income securities	0.0	5,375.5	0.0	0.0	5,375.5
Equities and other non-fixed-income securities	26.9	0.0	0.0	0.0	26.9
Investment certificates	170.1	0.0	0.0	0.0	170.1
Promissory note loans	0.0	214.7	0.0	0.0	214.7
Investments	31.5	8.2	21.5	35.0	96.2
Trading liabilities	**630.5**	**4,710.6**	**83.4**	**0.0**	**5,424.5**
Promissory note loans, bonds, certificates and warrants	0.0	2,645.8	73.4	0.0	2,719.2
Delivery obligations arising from securities sold short	6.9	0.0	0.0	0.0	6.9
Negative market value of derivatives	623.6	1,944.5	10.0	0.0	2,578.1
of which interest rate transactions	0.0	1,160.4	0.0	0.0	1,160.4
of which foreign exchange-based transactions	0.0	737.4	0.1	0.0	737.5
of which equity / index-based transactions	623.3	44.2	9.9	0.0	677.4
of which commodity-related transactions	0.3	2.5	0.0	0.0	2.8
Derivatives in hedging relationships	0.0	115.1	0.0	0.0	115.1
Derivatives held in the banking book	0.0	5.2	0.0	0.0	5.2

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 transactions	0.0	779.1	0.0	0.0	779.1
of which foreign exchange-based transactions	0.0	345.0	0.0	0.0	345.0
of which equity/index-based transactions	41.3	281.0	0.0	0.0	322.3
of which commodity-related transactions	0.0	3.5**	0.0	0.0	3.5
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**	**3,892.6**	**145.7***	**0.0**	**4,099.9**
Promissory note loans, bonds, certificates and warrants	0.0	1,978.8	135.7	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 transactions	0.7	863.6	0.0	0.0	864.3
of which foreign exchange-based transactions	0.1	344.9	0.0	0.0	344.9
of which equity/index-based transactions	7.7	650.7	10.0	0.0	668.4
of which commodity-related transactions	0.0	3.6**	0.0	0.0	3.6
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

* The prior-year's figures were adjusted; certificates on private equity investments, which are also allocated to Level 3 (reported under trading assets), were already allocated to Level 3 last year.

** We report OTC derivatives on gold under commodity-related transactions since 2014 and no longer under foreign exchange-based transactions. We adjusted the prior-year figures.

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
Commodity 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

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, among others, 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, the 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.

31.12.2014	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	36.1	Modified net asset value method	–	–1.8 to 1.8	–5 to 5 % price change
Financial assets					
Illiquid equity instruments	21.5	Modified net asset value method	–	–1.1 to 1.1	–5 to 5 % price change
Trading liabilities					
Asian options	37.9	Analytical Black-Scholes approach	Volatility	0.0 to 0.1	21 to 28 % (24 %)
Private equity certificates	36.0	Modified net asset value method	–	–1.8 to 1.8	–5 to 5 % price change
Currency-hedged certificates	9.5	Analytical Black-Scholes approach	Correlation between underlyings	–0.1 to 0.1	–65 to 26 % (–20 %)

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 %)
Private equity certificates	50.0	Modified net asset value method	–	–2.5 to 2.5	–5 to 5 % price change

* The prior-year levels were adjusted, certificates on private equity investments, which were also allocated to Level 3 (reported under Trading Assets), were already allocated to Level 3 last year.

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
01.01.2014	**52.8**	**19.7**	**145.7**
Changes in the carrying amount			
recognised in the income statement	– 5.1	– 0.9	– 5.6
recognised directly in equity	0.0	2.5	0.0
Purchases	0.0	0.2	0.2
Issuance	0.0	0.0	8.5
Sales	2.4	0.0	0.0
Maturities	9.1	0.0	65.4
Transfers to Level 3	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0
31.12.2014	**36.2**	**21.5**	**83.4**

in €m	Trading assets	Financial assets	Trading liabilities*
01.01.2013	**73.3**	**20.1**	**122.0**
Changes in the carrying amount			
recognised in the income statement	– 1.7	– 0.1	13.1
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	50.9
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**	**145.7**

* The previous year’s figures were adjusted; certificates on private equity investments, which are also allocated to Level 3 (reported under trading assets), were already allocated to Level 3 last year.

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.

There were no transfers to or from Level 3 in the financial year.

Due to the short maturities as well as fixed-interest periods for large parts of the loans and advances and liabilities in the business with customers and banks, the difference between fair value and present value is often immaterial for this item. The differences between present values and fair values are derived from the following table:

in €m	31.12.2014		31.12.2013	
	Present value	Fair value	Present value	Fair value
Assets				
Loans and advances to banks	1,494.8	1,506.5	1,643.8	1,653.7
Loans and advances to customers (after net loan impairment provision)	6,509.3	6,525.3	4,824.2	4,795.8
Liabilities				
Deposits by banks	875.3	875.5	1,269.4	1,269.6
Customer accounts	13,093.9	13,109.5	12,219.1	12,243.8
Certificated liabilities	10.0	10.8	10.0	9.0
Subordinated capital	448.2	490.9	345.7	375.5

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 book values of the contingent liabilities of €2,042.4million (2013: €1,621.4million) and irrevocable loan commitments of €8,067.7million (2013: €6,109.4million) equate to the fair values.

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 if necessary. They are mainly partnerships or unlisted public limited companies.

in €m	31.12.2014	31.12.2013
	Present value	Present value
Partnerships	11.2	15.3
Holdings in unlisted public limited companies	23.8	23.8
Total	**35.0**	**39.1**

Shares in these companies were not disposed of during the year under report (2013: €0.0million). The Bank has no intentions to dispose of partnerships at this point in time. The decline in partnerships is as a result of capital repayments.

57 Day-1 Profit or Loss

Financial instruments in Global Markets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

in €m	2014	2013
As at 01.01	**1.8**	**0.9**
New business	0.1	2.1
Day-1 profit or loss recognised in the income statement	–1.5	–1.2
of which positions closed out	–1.4	–0.6
of which matured transactions	–0.1	–0.6
of which observable market parameters	0.0	0.0
As at 31.12	**0.4**	**1.8**

58 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:

in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assets reported in the balance sheet (net)	Amounts not offset in the balance sheet		
					Financial instruments	Cash collateral	Net amount
31.12.2014	Derivatives	2,742.9	0.0	2,742.9	1,115.0	120.4	1,507.5
31.12.2013	Derivatives	1,455.9	0.0	1,455.9	818.2	212.0	425.7

The offsettable financial liabilities or those that are subject to an enforceable netting framework agreement or similar agreement are calculated as follows:

in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assets reported in the balance sheet (net)	Amounts not offset in the balance sheet		
					Financial instruments	Cash collateral	Net amount
31.12.2014	Derivatives	2,698.4	0.0	2,698.4	1,115.0	313.8	1,269.6
31.12.2013	Derivatives	1,932.3	0.0	1,932.3	818.2	194.1	920.0

Loans and advances as well as liabilities in conjunction with our repurchase agreements and securities lending transactions were not offset (cf. Note 32).

59 Holdings in Foreign Currency

As at 31 December 2014, assets denominated in a foreign currency were valued at €2,449.4million (2013: €1,773.0million) and the corresponding liabilities at €2,193.4million (2013: €2,336.7million). As in previous years, the bulk of these assets and liabilities were in US dollars.

60 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 products, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2014	Total 2013*
OTC products	Interest rate swaps	7,063.4	9,825.4	6,348.5	23,237.3	19,900.2
	Interest rate options	931.0	723.1	924.3	2,578.4	3,300.6
	Forward transactions	347.5	869.2	10.0	1,226.7	1,614.0
Exchange-listed products	Interest rate futures	2,625.4	0.0	0.0	2,625.4	3,303.2
	Interest rate options	273.2	302.0	193.1	768.4	680.9
Interest rate transactions		**11,240.5**	**11,719.7**	**7,475.9**	**30,436.1**	**28,798.9**
OTC products	Forward exchange transactions	31,870.8	2,724.3	0.0	34,595.1	24,563.0
	Cross currency swaps	0.0	88.1	205.8	293.9	307.9
	Foreign exchange options	2,917.6	513.0	0.0	3,430.6	2,286.1
Foreign exchange-based transactions		**34,788.4**	**3,325.4**	**205.8**	**38,319.6**	**27,157.0**
OTC products	Forward transactions	9.4	0.8	0.0	10.2	0.1
	Options	53.3	0.0	0.0	53.3	35.5
Commodity-related transactions		**62.7**	**0.8**	**0.0**	**63.5**	**35.6**
OTC products	Forward transactions	1.4	0.0	0.0	1.4	3.8
	Equity/index options	77.3	2.9	0.0	80.2	40.7
	Equity swaps	1.7	27.0	26.7	55.4	35.5
Exchange-listed products	Equity/index futures	1,529.3	0.0	0.0	1,529.3	887.0
	Equity/index options	6,940.3	1.9	0.0	6,942.2	5,347.8
Equity/index-based transactions		**8,550.0**	**31.8**	**26.7**	**8,608.5**	**6,314.8**
Total financial derivatives		**54,641.6**	**15,077.7**	**7,708.4**	**77,427.7**	**62,306.3**

* We report OTC derivatives on gold under commodity-related transactions since 2014 and no longer under foreign exchange-based transactions. We adjusted the prior year figures.

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 2014	Total 2013*	Total 2014	Total 2013*
OTC products	Interest rate swaps	29.0	227.2	772.1	1,028.3	715.3	1,060.8	812.6
	Interest rate options	15.7	22.1	3.2	41.0	38.9	45.2	42.1
	Forward transactions	23.3	78.5	0.0	101.8	30.8	169.5	55.3
Interest rate transactions		**68.0**	**327.8**	**775.3**	**1,171.1**	**785.0**	**1,275.5**	**910.0**
OTC products	Forward exchange transactions	546.5	151.3	0.0	697.8	299.2	689.7	302.4
	Cross currency swaps	0.0	8.9	8.0	16.9	13.4	17.0	13.3
	Foreign exchange options	28.1	6.6	0.0	34.7	32.1	36.1	33.3
Foreign exchange-based transactions		**574.6**	**166.8**	**8.0**	**749.4**	**344.7**	**742.8**	**349.0**
OTC products	Forward transactions	0.3	0.0	0.0	0.3	0.0	0.3	0.0
	Options	2.5	0.0	0.0	2.5	3.5	2.5	3.6
Commodity-related transactions		**2.8**	**0.0**	**0.0**	**2.8**	**3.5**	**2.8**	**3.6**
OTC products	Forward transactions	3.5	0.0	0.0	3.5	1.3	1.2	3.6
	Equity/index options	0.3	0.6	0.0	0.9	5.0	51.3	22.7
	Equity swaps	0.0	0.0	0.9	0.9	3.1	1.5	1.4
Equity/index-based transactions		**3.8**	**0.6**	**0.9**	**5.3**	**9.4**	**54.0**	**27.7**
Total financial derivatives		**649.2**	**495.2**	**784.2**	**1,928.6**	**1,142.6**	**2,075.1**	**1,290.3**

* We report OTC derivatives on gold under commodity-related transactions since 2014 and no longer under foreign exchange-based transactions. We adjusted the prior year figures.

Hedging instruments

The Bank also uses derivatives (interest rate swaps) to hedge against market interest rate risk on financial assets within the scope of its hedge accounting. These hedging relationships resulted in positive market values of €0.0million as at 31 December 2014 (2013: €6.0million) as well as negative market values of €115.1million (2013: €46.9million).

The hedge result is specified in more detail in the following overview:

Profit and loss in €m	2014	2013
From hedging instruments	–69.7	28.7
From underlying transactions	68.2	–28.9

61 Contingent Liabilities and Other Obligations

in €m	31.12.2014	31.12.2013
Contingent liabilities on guarantees and indemnity agreements	2,042.4	1,621.4
Irrevocable loan commitments	8,067.7	6,109.4
Total	**10,110.1**	**7,730.8**

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

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, and the associated directly liable guarantees for fulfilment of the additional funding obligations of other partners belonging to the BdB expired with the termination of the company's banking licence as at 2 October 2014.

Obligations from lease agreements (incl. rental and lease contracts) amounted to €69.8million (2013: €48.9million) as at the balance sheet date. The increase is due to the growth initiative.

in €m	31.12.2014	31.12.2013
Up to 1 year	19.3	9.9
Over 1 year up to 5 years	39.4	23.6
Over 5 years	11.1	15.4
Total commitments arising from leasing and rental contracts	**69.8**	**48.9**

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 German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

62 Assets Pledged as Collateral

Securities with a nominal value of €780.0million (2012: €611.3million) were deposited as collateral for transactions conducted on futures exchanges and for securities lending operations. The Bank pledged collateral in the amount of €10million in connection with longer-term refinancing operations with the central bank. In addition, real estate from a consolidated closed-end real estate fund, reported under Other Assets, also serves as collateral for the refinancing operations.

Financial instruments with a nominal value of €2,954.9million (2013: €3,970.0million) were available for use as collateral for peak funding facilities on the balance sheet date.

63 Trust Activities

Trust activities may not be shown on a bank's IFRS 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	31.12.2014	31.12.2013
Trust assets	**137.2**	**196.6**
Loans and advances to banks	0.00	54.5
Loans and advances to customers	0.00	0.0
Investments	137.2	142.1
Trust liabilities	**137.2**	**196.6**
Deposits by banks	0.00	0.0
Customer accounts	137.2	196.6

64 Participating Interests

HSBC Trinkaus & Burkhardt AG's participating interests can be presented as follows:

Company	Registered office	Percentage share of issued share	Equity held in the company in €000	Net profit for 2014 in €000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,747	0*
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	88,848	3,268
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	29,000	0*
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	1,748	–197
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,914	–13
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	211,844	2,344
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0*
HSBC Global Asset Management (Österreich) GmbH****	Vienna	100.0	399	39
HSBC Global Asset Management (Switzerland) AG***	Zurich	50.0	1,303	258
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	415
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	56	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	30	5
Trinkaus Canada 1 GP Ltd.****	Toronto	100.0	–30	–52
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	28	6
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	39	14
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	23	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,215	1,190
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	457	–4,191
Other companies				
HSBC Trinkaus Consult GmbH****	Düsseldorf	100.0	401	–112
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	32	7

* Profit-transfer agreement
** Equities issued by private companies
*** Consolidated at equity
**** Figures as at 31.12.2013

The Bank also holds a 26.6 % stake in sino AG, Düsseldorf. As at 30 September 2013, the equity held by the company was €4,710,000 and the net loss amounted to €35,000.

On the balance sheet date, the Group held no share with controlling influence.

There are no material restrictions in place with regard to the ability of the HSBC Trinkaus & Burkhardt Group to access or use assets and repay the liabilities of Group units.

65 Relationships with Unconsolidated Structured Units

The structured units are units for which the voting rights are not the dominant factor in assessing control. This is the case, for example, if voting rights relate only to the administrative duties and the relevant activities are managed by contractual agreements.

The activities of a structured unit are generally limited and are therefore restricted to a close and precisely defined corporate purpose.

In the HSBC Trinkaus & Burkhardt Group, structured units are used to provide customers with access to specific portfolios of assets. They can be established as corporations, investment companies, partnerships or funds. They include mainly real estate funds, private equity funds and securities funds. Group companies may exercise the function of a fund manager, trustee or other functions. The Group also invests in funds that are launched by third parties.

Structured units are consolidated in the HSBC Trinkaus & Burkhardt Group if the relationship between the Group and the structured unit shows that the unit is controlled by the Group.

The structured companies that are the subject of this item of the Notes are not consolidated because the Group does not exercise any control.

The Group generates revenue from management remuneration as well as profit-sharing for services rendered. In addition, dividends and interest income are generated by funding parts of the structured units.

The income and expenses incurred by non-consolidated structured companies as at 31 December 2014 are broken down as follows:

31.12.2014 in €m	Securities funds	Private equity funds	Real estate funds
Income from non-consolidated structured companies			
Net interest income	1.8	3.2	3.4
Fee income	0.0	0.0	0.0
Net other income	0.0	0.0	– 10.8

31.12.2013 in €m	Securities funds	Private equity funds	Real estate funds
Income from non-consolidated structured companies			
Net interest income	0.8	3.4	3.2
Fee income	0.0	0.0	0.0
Net other income	0.0	0.0	–4.8

The maximum default risk is understood as the highest possible loss that can be incurred from the relations with the structured companies. The maximum loss exposure from assets with respect to non-consolidated structured units is equivalent to the current present values of these positions after net loan impairment provision. The maximum default risk for financial guarantees and loan commitments is the nominal amount of the commitment. Collateral received and other risk-reducing techniques are not taken into consideration.

The following tables show the maximum default risks, the scope of the structured companies as well as the debts owed by the HSBC Trinkaus & Burkhardt Group to the non-consolidated structured units, based on the type of structured company (securities funds, private equity funds and real estate funds).

31.12.2014 in €m	Securities funds	Private equity funds	Real estate funds
Assets			
Loans and advances to customers	0.0	0.0	92.6
Trading assets	0.0	36.1	0.8
Financial assets	124.1	1.8	9.3
Other assets	0.0	0.0	0.0
Total assets	124.1	37.9	102.7
Loan commitments	0.0	0.0	9.0
Maximum default risk	124.1	37.9	111.7
Scope of the structured companies	**1,673.9**	**311.6***	**433.9***
Liabilities			
Customer accounts	7.4	13.7	13.2
Total liabilities	**7.4**	**13.7**	**13.2**

* Figures as at 31.12.2013

31.12.2013 in €m	Securities funds	Private equity funds	Real estate funds
Assets			
Loans and advances to customers	0.0	0.0	61.1
Trading assets	0.1	52.8	1.5
Financial assets	73.1	3.1	13.0
Other assets	0.0	0.0	0.0
Total assets	73.2	55.9	75.6
Loan commitments	0.0	0.0	1.6
Maximum default risk	73.2	55.9	77.2
Scope of the structured unit	**1,001.3**	**377.1***	**479.0***
Liabilities			
Customer accounts	3.0	52.6	11.8
Total liabilities	**3.0**	**52.6**	**11.8**

* Figures as at 31.12.2012

We declared a waiver of claims with debtor warrants in the amount of €9.9million in conjunction with winding up our business with closed-end real estate funds. Otherwise, no non-contractual financial support was granted to non-consolidated structured units.

66 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
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf
- Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH und Co. KG, Düsseldorf

67 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that the fully-consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxemburg, HSBC Trinkaus Investment Managers S.A., Luxemburg, 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.

68 Staff

Annual average	2014	2013
Staff employed abroad	79	203
Staff employed in Germany	2,521	2,325
Total (including trainees)	**2,600**	**2,528**
of which female members of staff	1,118	1,084
of which male members of staff	1,482	1,444

69 Auditors’ Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses, were reported as expense:

in €m	2014	2013
Audits	1.3	1.2
Other audit or valuation services	0.2	0.1
Tax advisory services	0.0	0.1
Other services	0.1	0.5
Total	**1.6**	**1.9**

70 Business Relationships with Companies and Pensions 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, on the one hand, are generally concluded under master agreements that allow netting and are secured within the scope of Credit Support Annexes (CSAs). On the other, there are cooperation and agency agreements with various companies of the HSBC Group. Overall, the consolidated income statement includes €117.6million (2013: €118.8million) in income and €36.7million (2013: €34.4million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. In the 2014 financial year, interest income from other HSBC companies amounted to €15.8million (2013: €17.6million), while interest expense stood at €6.4million (2003: €3.9million).

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

	Affiliated companies		Associated companies	
in €m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Loans and advances to banks	922.3	927.8	0.0	0.0
Loans and advances to customers	0.0	43.7	91.8	77.1
Total	**922.3**	**971.5**	**91.8**	**77.1**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Deposits by banks	206.4	681.8	0.0	0.0
Customer accounts	54.2	31.0	50.3	228.7
Total	**260.6**	**712.8**	**50.3**	**228.7**

Trading assets/liabilities and financial assets include the following transactions concluded with affiliated companies:

	Securities		Derivatives	
in €m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Trading assets	0.0	0.0	909.9	652.2
Trading liabilities	0.0	0.0	1,169.2	667.7
Financial assets	26.8	736.0	0.0	0.0

Compensation of the Executive Bodies

The basic elements of the remuneration system are described in the management report. The following overview shows the remuneration components of the members of the Management Board pursuant to German Accounting Standard (GAS) 17. In accordance with the resolution passed at the Annual General Meeting on 5 June 2007, the disclosures required by section 285 (9) letter a sentences 5 to 8 of the German Commercial Code (HGB) have been omitted.

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. At €4,334.600thousand, the fixed compensation for all members of the Management Board for 2014 was higher than the previous year (€2,244.7thousand) due to functional bonuses granted. The variable remuneration component of €5,076.0thousand (2013: €7,616.8thousand) included a long-term remuneration component of €3,045.6thousand (2013: €4,390.1thousand).

Other compensation in the amount of €66.6thousand (2013: €112.7thousand) 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.

Payments totalling €180.0thousand (2013: €177.0thousand) were made during the financial year to two members of the Supervisory Board in consideration of advisory services provided.

Remuneration of the Supervisory Board members amounted to €1,188.8thousand (2013: €1,312.8thousand) for the 2014 financial year.

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.

Payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, the former members of the Management Board of Trinkaus & Burkhardt AG and their surviving dependents totalled €5.0million (2013: €7.2million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €41.6million (2013: €39.9million).

71 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 31.12.2014	Number of option rights 31.12.2013
SAYE 2009 (5y)	01.08.2009	1.50	3.64	–	358,440
SAYE 2010 (5y)	01.08.2010	2.01	6.07	8,899	9,146
SAYE 2011 (3y/5y)	01.08.2011	1.53/1.61	5.80	25,668	76,109
SAYE 2012 (3y/5y)	01.08.2012	1.29/1.30	5.35	143,220	151,911
Total				177,787	595,606

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 2014 was €7.88 (1 August 2013: €8.65).

The share option scheme was last offered to members of staff in the 2012 financial year.

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2014	SAYE 2009–2012	595,606	4.39
Exercised in the course of the year	SAYE 2009 (5y)/ SAYE 2011 (3y)	408,881	3.91
Forfeited in the course of the year	SAYE 2010–2012	8,938	5.37
Balance as at 31.12.2014		177,787	5.45
of which outstanding option rights		159,482	
of which exercisable option rights		18,305	

The weighted average remaining term to maturity of option rights still outstanding as at 31 December 2014 was 402 days (2013: 406 days). The staff expenses to be taken into account in the year under report are €0.1million (2013: €0.3million).

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 €16.3million (2013: €13.6million) were assigned for the 2014 financial year. The shares will be transferred on a pro rata basis for the financial years 2015, 2016, 2017 and 2018.

The total value of capital reserves for share-based payments at the end of the reporting period amounts to €–1.1million (2013: €–1.7million). The corresponding liability for performance-related compensation payable amounts to €43.1million (2013: €43.5million).

72 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 'Government Commission on the German Corporate Governance Code' and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG homepage under http://www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporategovernance.

73 Offices held by Members of the Management Board

As at 31 December 2014, 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: Norbert Reis and Dr. Jan Wilmanns were not represented in any reportable control bodies at the time the annual accounts were prepared.

Andreas Schmitz (Chairman)	
Position	**Company**
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the 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**
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 the Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	RWE Supply & Trading GmbH, Essen

Carola Gräfin v. Schmettow	
Position	**Company**
Chairwoman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairwoman of the Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Supervisory Board	ThyssenKrupp AG, Essen

Dr. Rudolf Apenbrink (Executive Committee member)	
Position	**Company**
Chairman	HSBC Global Asset Management (Bermuda) Limited, Hamilton, Bermuda
Chairman	HSBC Global Asset Management (Turkey), Istanbul, Turkey
Vice 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 Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Dr. Christiane Lindenschmidt (Executive Committee member)	
Position	**Company**
Chairwoman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services S.A., Luxembourg
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Stephen Price (Executive Committee member)	
Position	**Company**
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw, Poland

74 Offices Held by Other Members of Staff

As of 31 December 2014, 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 Board of Directors	HSBC GIF Mauritius Limited, Port Louis, Mauritius
Member of the Board of Directors	HSBC GIF Mauritius No. 2 Limited, Port Louis, Mauritius
Non-Executive Director	HSBC Global Investment Funds SICAV, Luxembourg
Non-Executive Director	HSBC International Select Funds SICAV, Luxembourg
Non-Executive Director	HSBC Portfolios SICAV, Luxembourg
Non-Executive Director	HSBC Amanah Funds, Luxembourg
Member of the Advisory Board	DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt am Main

Thomas Fahlenbock	
Position	**Company**
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Gerd Goetz	
Position	**Company**
Deputy Chairman of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	sino AG, Düsseldorf

Christian Heger	
Position	Company
Non-Executive Director	Global Investors SICAV, Luxembourg
Non-Executive Director	Atrium Invest SICAV-SIF, Luxembourg

Markus Hollmann	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Dr. Detlef Irmen	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Dr. Manfred v. Oettingen	
Position	Company
Member of the 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 the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

Norbert Stabenow	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Heiner Weber	
Position	Company
Non-Executive Director	HSBC Global Asset Management (Schweiz) AG, Zurich, Switzerland
Non-Executive Director	HSBC Trinkaus Lingohr SICAV, Luxembourg

Ralf Wehner	
Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

75 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 S.A., Paris, France
Non-Executive Director	HSBC Bank plc, London, Great Britain

Dr. Hans Michael Gaul	
Position	**Company**
Deputy Chairman of the Supervisory Board	BDO AG, Hamburg
Member of the 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

Alan McAlpine Keir	
Position	**Company**
Non-Executive Director	HSBC Bank Middle East Limited, St. Helier, Jersey
Non-Executive Director	HSBC France S.A., Paris, France

Simon Leathes	
Position	**Company**
Non-Executive Chairman of the Board of Directors	Assured Guaranty (Europe) Limited, London, Great Britain
Non-Executive Chairman of the Board of Directors	Assured Guaranty (UK) Limited, London, Great Britain
Non-Executive Director	Assured Guaranty Limited, Hamilton, Bermuda
Non-Executive Director	HSBC Bank plc, London, Great Britain
Non-Executive Director	HSB Engineering Insurance Limited, London, Great Britain

Friedrich Merz	
Position	**Company**
Chairman of the Supervisory Board	WEPA Industrieholding SE, Arnsberg
Member of the Supervisory Board	Deutsche Börse AG, Frankfurt am Main
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 Asset Management Investmentgesellschaft mbH, Stuttgart
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

76 Publication

The Annual Report will be released for publication on 24 February 2015.

Dusseldorf, 10 February 2015

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 2014. 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 315 a 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 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the Group management report. Knowledge of the 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 315 a para. 1 German Commercial Code (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, 20 February 2015

KPMG AG Wirtschaftsprüfungsgesellschaft

signed Bormann
Auditor

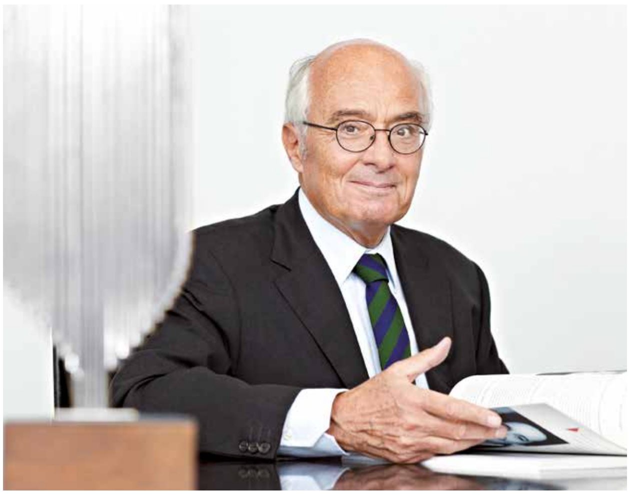
signed Brinkhoff
Auditor

Report of the Supervisory Board

Management

At five meetings conducted during the 2014 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 area. 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 growth initiative in Germany and the business with so-called Financial Sponsors. The Supervisory Board also discussed the capital increase successfully carried out at the Bank in October 2014 and approved the partial use of the authorised capital proposed by the Management Board.

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 2014 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.



Activities of the Supervisory Board's Committees

In order to permit the more efficient handling of selected management issues, the Supervisory Board set up five separate Committees from among its members in 2014. 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 fails 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 Annual General Meeting and supports the Supervisory Board, in accordance with the provisions of the German Banking Act (KWG), in identifying applicants to fill a position on the Management Board as well as examining the structure, size, composition and duties of the Management Board and Supervisory Board;

- the Remuneration Control 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 and the handling of conflicts of interests of Management Board or Supervisory Board members. The Committee is also responsible for monitoring the appropriate design of the compensation systems and monitoring whether internal controls and other relevant areas have been properly involved in the structuring of the compensation systems. The Committee also approves loans from the Bank to its employees and their family members or to members of the Supervisory Board;

- the Audit 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 the internal audit department and external auditors;

- **the Risk Committee**, which advises the Supervisory Board on the Bank's current and future willingness to take risk and risk strategy and receives regular reports from the Management Board on the Bank's risk situation and on the serious deficiencies identified by the internal audit department and the status of their remediation. 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 (KWG) – particularly with regard to connected-party loans to enterprises. The Risk Committee also discusses the risk management strategy with the Management Board, responsible for devising it, and approves the strategy as well as every major amendment to it.

The Mediation Committee has four members, the Nomination Committee has three, the Remuneration Controls Committee five, and the Audit Committee and Risk Committee four members. In line with legal requirements and the recommendations set out by the German Corporate Governance Code, the chairperson of the Supervisory Board chairs the Mediation Committee, the Nomination Committee, and the Remuneration Control Committee.

The Nomination Committee met once over the course of the year. The Remuneration Control Committee met five times, the Risk Committee four times and the Audit Committee seven times (on three occasions in the form of a conference call).

The Nomination Committee discussed, in line with legal requirements, the structure, size, composition and duties of the Management Board and Supervisory Board as well as the knowledge, abilities and experience of both the individual Management Board and Supervisory Board members and the respective body as a whole.

The Remuneration Control 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. Furthermore, the Committee approved various appointments of Managing Directors of subsidiaries.

The Audit Committee discussed the 2013 annual financial statements in two meetings. During three conference calls, the Committee discussed the draft quarterly reports prior to publication. Another significant topic was the Bank's capital increase. The external auditors were present at three of the four meetings and also participated in the conference calls.

The Risk Committee duly noted and discussed reports submitted by the Internal Audit Department, the Compliance Officer, the Money Laundering Prevention Officer and the Head of the Legal Department during its plenary meetings. Discussions in the Risk Committee focused on net loan impairment and other credit risk provisions; related discussions covered both the overall credit risk strategy (which was also discussed by the plenary meeting of the Supervisory Board) and individual exposures. Moreover, the Risk Committee carried out all regular tasks delegated to it by the Supervisory Board in the course of all Committee meetings.

Corporate Governance

During its meeting in February, the Supervisory Board discussed the German Corporate Governance Code and its implementation by the company. The Report on Corporate Governance in 2014, which details and explains the deviations from the recommendations of the 'Government Commission on the German Corporate Governance Code', is included in this Annual Report. Together with the Declaration of Compliance pursuant to section 161 German Stock Corporation Act (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 German Stock Corporation Act (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 2014 financial year, no conflicts of interest were detected between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board's Audit Committee satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

Annual financial statements

The Supervisory Board has examined the annual financial statements of the Bank for the year ending 31 December 2014, as well as the 2014 management report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting of 21 April 2015. The Annual General Meeting held on 4 June 2014 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the auditors for the financial statements and consolidated financial statements. The Supervisory Board's Audit Committee commissioned the auditors to carry out the audit of the financial statements and the consolidated financial statements on 2 September 2014. KPMG have audited the Bank's books, its annual financial statements and the management report for the year ending 31 December 2014, 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 ending 31 December 2014 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (HGB). These financial statements were also audited by KMPG 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 21 April 2015.

Relationships with affiliated enterprises

In accordance with section 312 German Stock Corporation Act (AktG), the Management Board has prepared a report on the Bank's relationship with affiliated enterprises for the 2014 financial year. Pursuant to section 313 German Stock Corporation Act (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

There were no personnel changes within the Supervisory Board during the 2014 financial year.

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 2015

The Supervisory Board

Sieghardt Rometsch

Dr. Sieghardt Rometsch
Chairman

Report on Corporate Governance in 2014

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 German Stock Corporation Act (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 2014, the Management Board was assisted by four Executive Committee members responsible for the Commercial Banking, Global Markets/Institutional & Corporate Clients, 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 divisions – is described in the chapter 'The Business Divisions' 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 have gained professional experience obtained in leading positions in the banking sector; the other two 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 representatives 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 five separate committees from among its members in 2014:

- 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 fails to achieve the required two-thirds majority;

- the Nomination Committee, which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting and supports the Supervisory Board, in accordance with the provisions of the German Banking Act, in identifying applicants to fill a position on the Management Board as well as examining the structure, size, composition and duties of the Management Board and Supervisory Board;

- the Remuneration Control 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 and the handling of conflicts of interests of Management Board or Supervisory Board members. The Committee is also responsible for monitoring the appropriate structuring of the compensation systems and monitoring whether internal controls and other relevant areas have been properly involved in the structuring of the compensation systems. The Committee also approves loans from the Bank to its employees and their family members or to members of the Supervisory Board.

- the Audit 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 the internal audit department and external auditors;

- the Risk Committee, which advises the Supervisory Board on the Bank's current and future willingness to take risk and risk strategy and receives regular reports from the Management Board on the Bank's risk situation and on the serious deficiencies identified by the internal audit department and the status of their remediation. 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 (KWG) – particularly with regard to connected-party loans to enterprises. The Risk Committee also discusses the risk management strategy with the Management Board, responsible for devising it, and approves the strategy as well as every major amendment to 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 Control Committees. The members of the Management Board, Supervisory Board and of the Supervisory Board's Committees are listed in the Annual Report in the section entitled 'Executive and Supervisory Bodies'. The Report of the Supervisory Board on its activities during the financial year under report, 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 report.

Reporting duties regarding transactions in HSBC Trinkaus & Burkhardt shares as well as rights to those shares in accordance with section 15 a German Securities Trading Act (WpHG)

In 2014, no transactions in HSBC Trinkaus & Burkhardt shares or any rights to those shares which would require a disclosure under section 15 a Securities Trading Act (WpHG) and subsection 6.3 German Corporate Governance Code were 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 2014 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the German Corporate Governance Code.

Declaration pursuant to section 161 German Stock Corporation 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 on the German Corporate Governance Code', as published in the official section of the web-based Federal Gazette in the version of 24 June 2014, and that they will continue to comply with this Code in the future.

The provisions in section 4.2.4. and 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 Annual 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 German 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 while 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. 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 them 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 2015

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, 10 February 2015

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 2014 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our consolidated financial statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included. In addition, this publication contains statements of our expectations concerning our Group's progress during 2015. Such statements about the future can be found above all in the Letter from the Management Board to our shareholders in the 'Outlook for 2015' 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 2015 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

12 May 2015
Interim Report as at 31 March 2015

2 June 2015
Annual General Meeting

19 August 2015
Press conference,
Interim Report as at 30 June 2015

10 November 2015
Interim Report as at 30 September 2015

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2014	2013	2012	2011	2010
Total assets	22,177.8	19,809.7	20,047.8	20,635.2	18,584.0
Assets					
Cash reserve	616.4	1,133.7	265.0	672.2	336.1
Loans and advances to banks	1,494.8	1,643.8	1,551.2	1,857.6	1,402.9
Loans and advances to customers	6,538.9	4,857.6	4,554.3	3,717.2	3,089.6
Net loan impairment provision	–29.6	–33.4	–25.2	–27.1	–49.1
Trading assets	7,327.8	6,753.6	8,261.5	9,852.3	10,130.6
Financial assets	5,883.4	5,124.8	5,068.3	4,164.7	3,305.9
Share of profit in associates	20.3	54.5	55.1	65.2	38.0
Property, plant and equipment	97.6	83.8	80.6	79.3	83.1
Intangible assets	10.6	15.9	23.7	31.3	38.9
Taxation recoverable	13.6	10.9	1.2	9.4	4.3
current	1.5	5.2	1.2	8.6	4.3
deferred	12.1	5.7	0.0	0.8	0.0
Other assets	204.0	164.5	212.1	213.1	203.7
Liabilities					
Deposits by banks	875.3	1,269.4	1,219.5	749.6	1,180.4
Customer accounts	13,093.9	12,219.1	11,880.4	12,413.3	10,148.0
Certificated liabilities	10.0	10.0	10.0	10.0	10.0
Trading liabilities	5,424.5	4,099.9	4,721.9	5,426.0	5,200.1
Provisions	167.2	142.7	136.6	103.4	96.5
Taxation	32.2	39.9	65.8	48.3	66.7
current	32.2	39.9	53.4	48.3	52.6
deferred	0.0	0.0	12.4	0.0	14.1
Other liabilities	210.1	229.3	275.0	235.0	214.1
Subordinated capital	448.2	345.7	353.4	353.4	378.4
Shareholders' equity	1,916.4	1,453.7	1,385.2	1,296.1	1,289.7
Minority interests	0.0	0.0	0.0	0.1	0.1
Income statement					
Net interest income	174.7	165.8	175.7	148.9	128.7
Net loan impairment and other credit risk provisions	4.0	10.9	0.9	–12.7	7.7
Share of profit in associates	0.2	0.3	–8.1	0.7	0.4
Net fee income	389.7	401.1	383.7	385.5	404.0
Net trading income	107.3	95.7	161.8	116.8	120.4
Administrative expenses	494.0	486.2	495.0	466.8	439.3
Income from financial assets	23.6	16.3	9.1	–4.8	–0.6
Net other income	16.1	37.0	–8.4	17.6	4.1
Pre-tax profit	213.6	219.1	217.9	210.6	210.0
Tax expenses	67.1	63.8	85.9	73.3	70.6
Net profit	146.5	155.3	132.0	137.3	139.4