Annual Report 2012

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2012	2011*	Change in %
Results in €m			
Operating revenues	705.4	668.4	5.5
Net loan impairment and other credit risk provisions	0.9	– 12.7	–
Administrative expenses	493.2	466.8	5.7
Operating profit	211.3	214.3	– 1.4
Pre-tax profit	219.7	210.6	4.3
Tax expenses	86.5	73.3	18.0
Net profit	133.2	137.3	– 3.0
Balance sheet figures in €m			
Total assets	20,047.8	20,635.2	– 2.8
Shareholders' equity	1,385.0	1,296.1	6.9
Ratios			
Cost efficiency ratio of usual business activity in %	69.1	70.2	–
Return on equity before tax in %	17.1	17.1	–
Net fee income in % of operating revenues	54.4	57.7	–
Funds under management and administration in €bn	150.3	125.5	19.8
Employees	2,528	2,577	– 1.9
Share information			
Number of shares issued in million	28.1	28.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	4.74	4.88	– 2.9
Share price as at 31.12. in €	87.19	90.20	– 3.3
Market capitalisation in €m	2,450.7	2,535.3	– 3.3
Regulatory ratios**			
Tier 1 in €m	1,192.6	1,100.2	8.5
Regulatory capital in €m	1,534.6	1,438.8	6.9
Risk-weighted assets in €m	9,238.1	9,600.0	– 3.8
Tier 1 ratio in %	12.9	11.5	–
Regulatory capital ratio in %	16.6	15.0	–

* prior-year figures adjusted. The adjustments are explained in Note 18.
** following confirmation of the balance sheet

Annual Report 2012

HSBC Trinkaus & Burkhardt

Date of issue: April 2013

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

Contents

Ladies and Gentlemen,

Six years after the onset of turmoil on the financial markets, the continuing sovereign debt crisis and financial repression now represent the greatest risk to the economy, increasingly threatening to turn into a currency war. Private households and companies around the world are exercising restraint, worried about the Eurozone breaking up, the growth engine China stalling or the USA falling off the fiscal cliff. Even though Germany has proven to be comparatively stable and robust for some time in this difficult situation, the German economy also contracted towards the end of the year. In addition to this, the domestic financial industry remains under pressure: low revenue growth, hardly measurable in part, continues to meet with significant cost increases and higher capital requirements.

Despite the crisis affecting the financial markets, HSBC Trinkaus recorded the highest pre-tax profit in the company's 228-year history in the 2012 financial year. At € 219.7 million pre-tax profit was 4.3 % higher than adjusted pre-tax profit in 2011 (€ 210.6 million). Net profit of € 133.2 million was only 3.0 % lower than the adjusted prior-year figure. At € 211.3 million operating profit came in just marginally below one of the best results in the Bank's history recorded in 2011.

The capital ratio grew in the latest financial year from 15.0 % to 16.6 % and the Tier 1 capital ratio stands at 12.9 %. HSBC Trinkaus therefore meets the existing capital requirements under Basel III and has sufficient capital to allow for further business expansion, also via acquisitions, without having to raise new capital. Given the good result, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of an unchanged dividend of € 2.50 per share.

The outstanding business results underline the Bank's solid and sustained performance against the backdrop of the unresolved sovereign debt crisis and ever-higher regulatory requirements for financial institutions. The business model with its clear orientation towards clients in the Corporate Banking, Institutional Clients and Private Banking segments, supported by risk-aware trading, has continued to prove itself. The results confirm in particular the continuing success of the Bank's growth strategy which it started to implement in 2010 and continued in the two years that followed. Our orientation as "Leading International Bank" in the corporate banking business has made us one of the few competent addresses for international business in the German market for many large corporations, but also in the upper SME segment. HSBC Trinkaus takes a particular interest in using the global network of the HSBC Group to the benefit of our customers, seeing ourselves in Germany as a pioneer in global exchange.

The Corporate Banking and Institutional Clients segments were able to further improve on their good prior-year results. Corporate Banking generated the largest earnings contribution thanks to the strong growth in fees earned and mainly volume-based increases in interest income in both the lending and foreign business. The Institutional Clients segment enjoyed similar success to the Corporate Banking segment. The segment benefited in particular from the growing variety of products resulting from the close collaboration with the HSBC Group in the form of higher net fee and trading income. The Private Banking segment was able to almost repeat its prior-year result, despite the unfavourable market conditions and the resulting restraint exercised by customers. The jump in earnings versus the previous year in the client-oriented trading business was due to the subsequent increase in compensation in the wake of two companies merging.

Based on its successful business performance in 2012 the Bank is in position to continue with its medium-term growth strategy and gain market shares in all business segments in 2013 and the following years as well. The focus remains on the significant expansion of the business with SME corporate clients. But we will by no means neglect the market opportunities presented to us in the Global Banking segment (institutional clients and internationally operating corporations), in Private Banking as well as in the business with warrants and certificates for independently operating private investors. In addition to the further consistent implementation of our organic growth strategy, we also want to realise this in principle by buying in assets.

We are using the opportunities presented to us in the current competitive market. However, the countless regulatory requirements represent a challenge. Even though we are today – thanks to our strength – already in position to meet the standards required, the continuous improvement of our efficiency is absolutely vital in order not to endanger the Bank's sustainability.

Above all our employees are paramount to HSBC Trinkaus' success. Continuity within our staff is a major asset in our client business. Their motivation, skills and commitment guarantee the best possible service for our clients. We therefore attach major importance to the development and training of our staff and plan to make comprehensive investments in training and advanced training measures again this year as well, including international placements within the HSBC Group.

HSBC Trinkaus has always excelled in providing continuous personal service. We are a trustworthy banking partner and "Trusted Advisor" for our clients. Our business model, which is based on trust and geared towards the long term, is proving itself in particular in these uncertain times.

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

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
Dr. Olaf Huth
Manfred Krause

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

HSBC Trinkaus is an internationally-positioned, client-oriented commercial bank. We are in a unique position among the German banks: in a global network as HSBC in Germany and therefore part of one of the world's largest banking groups – and at the same time offering an individual and highly-personalised customer service with the values of our 228-year history. Our business model as a bank clearly oriented towards the target groups of corporate clients, institutional clients and high-net-worth private clients has proven itself as viable for the future. As part of the HSBC Group, HSBC Trinkaus is still the highest rated private commercial bank in Germany with a "AA- (Stable)" rating.

We accompany our clients throughout the world. Thanks to around 6,900 HSBC branches in over 80 countries and regions our strengths lie in the detailed knowledge of international markets, in particular the emerging markets. Through us our clients gain access to sophisticated financial services, exclusive market information and first-class contacts. We are one of only very few banks in Germany to offer global overall portfolio management by only one

Executive Committee

Dr. Christiane Lindenschmidt
Dr. Rudolf Apenbrink
Florian Fautz

advisor who brings together and therefore makes accessible to the customer the local expertise available worldwide.

For our corporate and institutional clients, both large corporations and the upper SME segment, we are the gateway to the world for your financial transactions. Thanks to our integration into the HSBC Group, this also enables large-volume transactions and risk assumption. As the quality of our offer in the traditional banking business is also recognised, we are increasingly acting as core bank for our clients. Our private clients – who appreciate our "Trusted Advisor" approach in particular – benefit from the internationality we are able to offer like no other bank in Germany at present.

You can rely on HSBC Trinkaus. This is borne out by our excellent, conservative risk management which functions according to few, but fundamental rules: the bank only assumes risk in accordance with its risk-bearing capacity. We want to grow with our clients, not with our risks. This business policy provides our clients with security; we are regarded as a safe haven. The foundation for this is created by our employees who, thanks to their long-term commitment to the Bank, stand for lasting client relationships and add personality to our client orientation.

Firmly anchored values have always been an integral part of our corporate culture as is expressed in our Corporate Sustainability. We are aware of our responsibility to the company and to the environment. Sustainability criteria corresponding to standards applicable worldwide have been incorporated into our business processes. We also support the commitment of our employees to social and environmental projects.

The trust our clients place in us is based not least on our claim that we were, we are and we will be there for them.

Supervisory Board

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

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

Friedrich-Karl Goßmann*, Essen
Deputy Chairman
Bank employee

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

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

Peter Boyles
Chief Executive Officer,
HSBC Global Private Banking,
HSBC Private Bank (Suisse) SA, Geneva

Deniz Erkman*, Krefeld
Bank employee

Stefan Fuchs*, Düsseldorf
Employee of HSBC Transaction Services GmbH

Dr. Hans Michael Gaul, Düsseldorf

Birgit Hasenbeck*, Düsseldorf
Bank employee

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

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

Friedrich Merz, Arnsberg
Partner,
Mayer Brown LLP

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

Ralf Rochus*, Essen
Bank employee

Carsten Thiem*, Düsseldorf
Bank employee

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

* elected by the employees

Situation as at 31 December 2012

Supervisory Board Committees

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

Peter Boyles
Chief Executive Officer,
HSBC Global Private Banking,
HSBC Private Bank (Suisse) SA, Geneva

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

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

Peter Boyles
Chief Executive Officer,
HSBC Global Private Banking,
HSBC Private Bank (Suisse) SA, Geneva

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

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

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

Deniz Erkman*, Krefeld
Bank employee

Dr. Hans Michael Gaul, Düsseldorf

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

Deputies:

Stefan Fuchs*, Düsseldorf
Employee of HSBC Transaction Services GmbH

Friedrich Merz, Arnsberg
Partner,
Mayer Brown LLP

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

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

Peter Boyles
Chief Executive Officer,
HSBC Global Private Banking,
HSBC Private Bank (Suisse) SA, Geneva

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

* elected by the employees

Advisory Board

Friedrich Merz
Chairman
Partner,
Mayer Brown LLP

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

Dr. Olaf Berlien
Member of the Management Board,
ThyssenKrupp AG

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

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

Baron Wolf von Buchholtz

Albert H. K. Büll,
Entrepreneur and shareholder,
B&L Group

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,
E A D S

Heinrich Johann Essing
Managing Director,
HEC Vermögensverwaltung GmbH

Dr. Joachim Faber (since April 2012)
Chairman of the Supervisory Board,
Deutsche Börse AG

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

Robert Friedmann (from March 2012)
Chairman of the Board of Directors,
Würth-Gruppe

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

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

Hartmut Jenner
Chairman of the Managing Committee,
Alfred Kärcher GmbH & Co. KG

Professor Dr. Dr. h.c. Anton Kathrein,
(passed away 13 November 2012)
Councillor of Commerce
Managing Partner,
KATHREIN-Werke KG

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

Dr. Karl-Ludwig Kley
Chairman of the Managing Committee,
Merck KGaA

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

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

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

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

Udo van Meeteren

Dr. Claus Meier,
Dipl.-Volkswirt, Senior Church Councillor,
Evangelical Lutheran Church of Bavaria

Jürgen Meisch
Member of the Management Board,
Gothaer Finanzholding AG

Ludwig Merckle
Managing Director,
Merckle Group

Dr. Markus Michalke
Managing Director,
MIC Asset Management GmbH

Hildegard Müller
Member of the Executive Board,
Chairwoman of the General Executive Management Board
BDEW Bundesverband
der Energie- und Wasserwirtschaft e. V.

Karsten Müller-Uthoff
Managing Director,
Ärzteversorgung Niedersachsen

Werner Nicoll
Member of the Management Board,
ARAG SE

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

Hartmut Retzlaff
Chairman of the Management Board,
STADA Arzneimittel AG

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

Dr. Marcus Schenck
Member of the Management Board,
E.ON SE

Dr. Ulrich Schröder
Chairman of the Management Board,
KfW Bankengruppe

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

Professor Dr. Klaus Schweinsberg
Centrum für Strategie und Höhere Führung

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 Management Board,
K+S Aktiengesellschaft

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

Hartmuth Wiesemann

Situation as at 31 December 2012

Group Management Report

Structure and Management

The Group

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

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt (International) S.A. Luxembourg	HSBC Global Asset Management (Deutschland) GmbH Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers S.A. Luxembourg	HSBC Global Asset Management (Österreich) GmbH Wien	Trinkaus Private Equity Management GmbH Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Global Asset Management (Switzerland) AG Zürich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	HSBC Trinkaus Real Estate GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
HSBC Transaction Services GmbH 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 real estate 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 independent legal status, all companies are managed within the framework of an overall strategy.

Constitution of the company

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

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

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

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

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

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

Basic features of the compensation system for the Executive and Supervisory Bodies

As a credit institution, the provisions of the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) announced by the Federal Ministry of Finance on 6 October 2010 apply in particular for HSBC Trinkaus alongside the provisions of the Stock Corporation Act and the recommendations of the German Corporate Governance Code. After detailed risk analysis, the Management Board came to the conclusion that the Bank is not a significant institution within the meaning of section 1 (2) of this ordinance.

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

The share of the cash component, the minimum waiting period until the allocation of the long-term share of the compensation as well as its distribution beyond the waiting period is geared towards the HSBC Group's provisions applicable throughout the Group and can vary from year to year. The details of this are published in the Annual Report for the respective year. For the 2012 financial year half of the entire variable remuneration for all Management Board members consists of a cash payment and half of an allocation of shares in HSBC Holdings plc. 40 % will be transferred in 2013 and 60 %, a third in each case, in the next three financial years, in other words from 2014 to 2016. A further holding period of six months from the date of transfer is prescribed for the shares in HSBC Holdings plc.

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

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

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

The company's Annual General Meeting again decided with the required three-quarters majority on 5 June 2012 that the individual emoluments of the members of the Management Board are not to be published (Section 314 para. 1 no. 6a sentence 5 to 9 German Commercial Code (HGB)).

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. At € 2,772.8 thousand the fixed remuneration for all members of the Management Board for 2012 was higher than in the previous year (€ 2,544.0 thousand). The variable share of the remuneration amounted to € 10,675.0 thousand (2011: € 11,200.0 thousand) including a long-term remuneration component of € 6,405.0 thousand (2011: € 6,332.5 thousand).

Other compensation in the amount of € 138.2 thousand (2011: € 124.2 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually. Provisions totalling € 27.2 million (2011: € 15.7 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 4 June 2013, the compensation of the Supervisory Board will be € 1,309,000.00 (2011: € 1,226,189.07). The members of the Advisory Board received remuneration totalling € 388,800.00 (2011: € 372,375.00). Furthermore, fees were paid to two (2011: four) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 197,837.50 (2011: € 270,725.00). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled € 4.1 million (2011: € 4.1 million). Provisions totalling € 34.9 million (2011: € 33.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

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

As in the previous year, there were no loans and advances to members of the Management Board. As of the balance sheet date one member of the Supervisory Board was utilising current account loans totalling € 3,000 (2011: € 4,000). 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 Note 65.

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 and Mr. Florian Fautz as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the subsidiaries.

Management Board

Dr. Olaf Huth
Management Board

- Global Private Banking
  Dr. Olaf Huth

Manfred Krause
Management Board

- Commercial Banking
  Manfred Krause

Andreas Schmitz
Chairman of the Management Board

- Global Banking
  Andreas Schmitz/ Florian Fautz
- Investment Banking ECM & Advisory
  Florian Fautz
  Executive Committee
- Functions A
  Andreas Schmitz
  – Company Secretary
  – Legal
  – Compliance, AML & Fraud Prevention
  – Internal Audit
  – Communications
  – Corporate Sustainability
  – Marketing
  – Strategy & Planning

Carola Gräfin v. Schmettow
Management Board

- Global Markets
  Global Research
  Carola Gräfin v. Schmettow
- Asset Management AMDE
  Dr. Rudolf Apenbrink
  Executive Committee

Paul Hagen
Management Board

- Functions B
  Paul Hagen
  – Human Resources
  – Risk
  – Finance
- HSBC Securities Services (HSS)
  Dr. Christiane Lindenschmidt
  Executive Committee
- HSBC Technology & Services (HTS)
  Dr. Christiane Lindenschmidt
  Executive Committee
- Global Banking & Markets Operations (GB&M Ops)
  Dr. Christiane Lindenschmidt
  Executive Committee

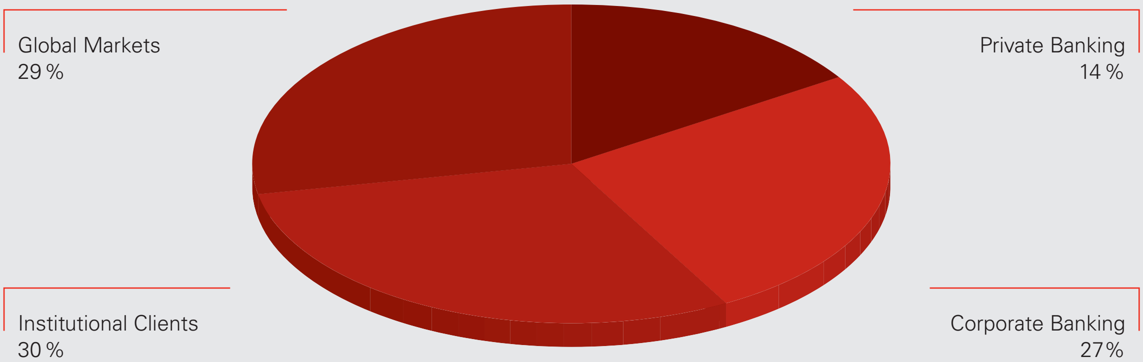
Individual divisions are defined as either profit centres or cost centres. The costs for the technology and service departments are mainly apportioned as unit costs to the customer and trading divisions. Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit in €m

After allowing for a total of € 34.5 million for head office functions during 2012, as against € 13.0 million for 2011*, the 2012 operating profit was € 211.3 million (2011*: € 214.3 million). The mean contributions to profits over the last five years reveal a balanced picture:

* prior-year figures adjusted. The adjustments are explained in Note 18.

Five-year average business results



Strategic Direction

General economic setting

Economic activity and events on the financial markets were again dominated by the financial and sovereign debt crisis in the latest financial year. While the weaker flight of capital out of highly-indebted euro states, falling bond spreads and growing bank deposits in crisis-stricken countries represent the first positive signs, we are still a long way from normality. The forecasts are expecting a recession in the Eurozone with an unemployment rate on a record level for 2013 as well. There is a risk that the process of reform required in the countries hit by crisis will slow down and political setbacks will be suffered in the states affected. This means that what started as a subprime crisis and ended in a sovereign debt crisis is now turning into a confidence and balance of payments crisis in Europe. A credible change of direction in the European states towards a solid long-term budget policy is required to regain confidence. Comprehensive structural reforms to restore the international competitive strength of the countries in crisis are required to counter the balance of payments crisis. Furthermore, institutional reforms are required in the Eurozone which ensure that rules agreed are effectively monitored and observed. The aid being provided in a show of solidarity by the core euro states has gained the time required to implement the reforms. The strict rule must be that financial assistance is only provided in return for reforms.

There is no historical comparison for this situation, which requires measures that cannot be found in any economic textbook. For example, the European Central Bank (ECB) has intervened in the money market on two occasions. On the other hand, the impatient demand for rapid and simple solutions as well as the desire for an imminent end to the crises of recent years remains constant. We are therefore not discussing Basel III, the regulation of shadow banking or a solution for the "too big to fail" problem, but also a colourful variety of further measures such as the financial transaction tax, the introduction of the separation of commercial and investment banking or a concerted European deposit protection scheme to solve this complex problem. However, it is still true that there is no simple and rapid solution to overcoming the crisis.

The financial crisis has shown that risks to financial market stability are emanating both from institutions with a broad business model and from specialist and investment banks. The bank structure is not relevant for the stability of the system and correspondingly the introduction of the separation of commercial and investment banking neither guarantees a high degree of financial stability, nor can it protect the taxpayer. On the contrary, the structure of a country's banking system and its economic structure must be compatible. The export-oriented German economy benefits from the universal bank model in Germany. In order to strengthen financial market stability, the regulatory measures already coordinated internationally should therefore be implemented allowing the greatest possible convergence of the different national instruments presently in place.

The goal of a single European financial market should not be forgotten, even in times of crisis. The fundamental decision in favour of a European banking supervisor therefore contributes to the further integration of the European financial markets, strengthens the stability of the financial system as well as monetary union, and decouples banking supervision from the interests of the individual member states. European banking supervision is the first step in the direction of banking union. It is still too early, though, for a mutual cross-guarantee system within the meaning of deposit protection. Stronger political integration in Europe is required before proven domestic systems are abandoned.

However, beyond the necessary government regulation and independent measures taken by the banks, the following still applies: the key to the success of a bank and a functioning financial market lies in consistent business models which enable in particular long-term economic success through an active corporate culture. The financial crisis has revealed quite clearly here market participants without a sustainable business model who have in the end become a burden for the financial system and the taxpayer.

Orientation of HSBC Trinkaus in the current environment

HSBC Trinkaus proved again in the latest financial year that the unique combination of our business model is still convincing. Our strategic orientation is characterised by diversification, sustainability and risk awareness. This approach enabled us to acquire a large number of new clients last year; we are also perceived as a safe haven, having done many things right.

With its "AA- (Stable)" rating HSBC Trinkaus retains the highest Fitch rating of all the German private commercial banks. This underlines the stability and security of the Bank and of the HSBC Group and its strong positioning within the sector, in particular given the general sector revaluation by the rating agencies.

We want to remain successful in the challenging market environment through consistent orientation to clearly defined target groups and pronounced risk awareness in 2013 as well. 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, also 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

The fact that we can rely on a stable and reliable shareholder, HSBC, contributes to our unique position in the market. The close cooperation with the HSBC Group means that we are one of the few competent addresses for international business in the German market for more and more clients. HSBC Trinkaus takes a particular interest in using the global network of the HSBC Group to the benefit of our customers, seeing ourselves as a pioneer in global exchange in view of Germany's status as a leading export nation.

The significance of the German market for the HSBC Group was reaffirmed by the HSBC Group last year as well. Alongside China, the USA, India, France and Great Britain, Germany is a key country for the strategic growth of the HSBC Group, an assessment which is based on the strong long-term export power expected for Germany. The HSBC Group expects a significant increase in the German contribution to its pre-tax profit in the medium term. In addition to the further consistent implementation of our organic growth strategy, which led to very favourable results in particular in our business with German corporate clients last year as well, we also want to realise this by buying in assets. We regularly examine possible operators in the market to strengthen our business on a selective basis, but are very careful to ensure that we adhere to our internal profitability and risk criteria.

Overview of our strategy

Our strategy is characterised by continuity and is based on the following six points:

- We concentrate on the target groups of corporate clients, institutional clients and high-net-worth private individuals 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 existing and new clients from our target groups. Our decisions are made with

the focus on our clients and we attach the greatest importance to personnel continuity in servicing 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.

- Innovative and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. The basis of every good client relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions and is therefore of major importance for us.

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

- 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 respective regional networks in around 80 countries.

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 at the private-bank level.

- 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 against the backdrop of a 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 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.

The long-standing and successful business relationships with our customers as well as their positive feedback have strengthened our conviction that we are on the right track. In the spirit of our long-standing tradition, we remain committed to our values; future needs tradition.

The 2012 Financial Year

General economic setting

The global economy had to shift down a gear in 2012, mainly due to the uncertainty prevailing over most of the year. Private households and companies around the world exercised restraint, worried about the Eurozone breaking up, the growth engine China stalling or the USA falling off the fiscal cliff. In the Eurozone, the additional consolidation measures required took their toll and pushed numerous member states deeper into recession. The fall-off in demand from the most important sales markets put increasing pressure on German foreign trade over the course of the year and investments were put on ice to begin with owing to the uncertain prospects – despite the favourable financing conditions. The German economy therefore contracted even in the fourth quarter. Correspondingly, with an increase of 0.7 % for the full year, gross domestic product grew at a far slower pace than in the previous year, when economic activity still expanded by 3.0 %.

The ECB countered the economic slowdown in the single currency area in July by lowering the key interest rate to a new record level of 0.75 %. Unlimited liquidity was also made available again within the scope of a three-year tender. The fear of the Eurozone breaking up could only be capped, though, when the ECB signalled its willingness to buy unlimited amounts of government bonds on the secondary market by stating that it would do "whatever it takes to preserve the euro". The "Outright Monetary Transactions" are tied to the proviso that the states in question have already requested help from the European Stability Mechanism (ESM), also launched in 2012. The other central banks also took drastic measures again in 2012, though, in order to stimulate the economy. The Bank of England is trying to boost borrowing within the scope of the "Funding for Lending Scheme". And in the USA the Fed is aiming for a substantial improvement on the labour market with a new bond buying programme. The Federal Funds Rate is not to be raised provided the unemployment rate does not slip below 6.5 % and the forecasts for inflation do not exceed 2.5 %.

Owing to the large number of problem areas, investments in "safer havens" remained in demand above all in the first half of 2012. Bundesanleihen benefited from this and rose to record highs with the ten-year yield falling below 1.2 % at times. The refinancing costs of the European peripheral states could only be lowered towards the end of the year again by the ECB intervention promised in the summer. The stock markets were also relieved and the DAX was able to close the year with an increase of around no less than 30 %. The European and US indices also recorded almost double-digit growth and the euro was able to record its first gains versus the USD for three years with quotations of over USD 1.31.

Profitability

Against the backdrop of the unresolved European sovereign debt crisis as well as the recession in parts of the Eurozone and the weak growth in China, Brazil and India, HSBC Trinkaus was able to generate an outstanding result in 2012 with pre-tax profit of € 219.7 million. This figure includes on the one hand income of around € 35 million resulting from a subsequent increase in compensation relating to a company merger. On the other hand, restructuring costs for measures to improve efficiency and business model adjustments, which did not quite reach the amount of the increase in compensation, put pressure on the result. This means that there was an increase versus adjusted pre-tax profit the previous year (2011: € 210.6 million) of 4.3 % or € 9.1 million. Net profit came to € 133.2m and was therefore 3.0 % or € 4.1 million lower than the adjusted prior-year figure of € 137.3 million. The adjustments to the prior-year figures had to be made in accordance with IFRS and are the result of a change in the reporting of share-based payments. We go into this in more detail in Note 18: Change in Accounting Policies.

Our business model has therefore proven itself again. By focusing on our clearly defined target client groups and their requirements, we were able to make further advances in both the Corporate Banking and Institutional Clients segments. The business with high-net-worth private individuals suffered a decline in earnings on the other hand owing to the restraint being shown by many private clients with respect to trading activity. The substantial increase in net trading income is due in particular to the extraordinary effect of a subsequent increase in compensation relating to a company merger. The continuing speculation over the credit standing of individual Eurozone member states put hardly any pressure on our result as we are exposed to these countries – if at all – only with very manageable bond holdings.

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

Net interest income was up significantly by € 26.8 million or 18.0 % to € 175.7 million.

- Interest income in the lending business rose significantly owing to the increase in business volumes with margins almost unchanged compared to the previous year. Our readiness to extend the credit portfolio significantly in the wake of our growth strategy meant that we were able to expand the business with larger SME corporate customers in particular as providing loans remains the mainstay of the entire business relationship for this client group. We do not have to or want to make concessions with respect to the financial standing of our clients, but can also expand our market share significantly with the traditionally high requirements we place upon our clients' credit standing.

- Interest income from the deposit-taking business is under major pressure. Margins deteriorated substantially with only slightly lower volumes. We see the still high level of deposits by our clients as evidence of the confidence they place in the Bank. We are still perceived as a safe haven, especially in this difficult operating environment for banks. However, this competitive advantage is being invalidated at present by the liquidity flooding the financial markets and the ECB's extremely low interest-rate policy.

- Interest income from financial assets also rose significantly as we further expanded financial assets as surplus liquidity for the Bank. We have maintained strict rules for the quality of the assets and thus remained more or less unscathed by the escalation of the sovereign debt crisis, even foregoing higher margins.

After the significant net reversal of loan impairment and other credit risk provisions the previous year, there was a net charge of € 0.9 million in the 2012 financial year. There was a net release of individually assessed impairments of € 1.3 million which was set against an increase in collectively assessed impairments of € 2.7 million. The increase in collectively assessed impairments is attributable to higher credit volumes on the one hand and to the general deterioration in the economic trend on the other. Recoveries on loans and advances previously written off resulted in income of € 0.5 million. Our conservative orientation is unchanged in relation to the granting of loans and the assessment of default risks.

The share of profit in associates of €-8.1 million (2011: €0.7 million) is essentially the result of a write-down on an investment which was necessary on account of the negative impact of changes unfolding in the company's regulatory environment.

Net fee income of € 383.7 million, which was slightly lower by € 1.8 million or 0.5 %, almost corresponded to the prior-year figure of € 385.5 million. This reflects the continuing uncertainty on the capital markets, which led to customers postponing equity transactions and also dampened the willingness of private and institutional clients to invest.

- The clear restraint shown by the Bank's clients in respect of the capital markets was felt in the traditional securities business (decline of € 8.8 million to € 236.5 million) as well as in Investment Banking (decline of € 10.8 million to € 7.4 million). We recorded the strongest decline in Investment Banking. Our fee-based business remains focused on all services in the traditional securities business. Contrary to the decline in transaction figures in the Bank's securities business, we were again able to record substantial volume and revenue growth at our subsidiary Internationale Kapitalanlagegesellschaft mbH (HSBC INKA). The volume of assets managed in German funds by HSBC INKA exceeded the € 100 billion mark in August. The assets under administration have risen by almost € 20 billion since the beginning of the year in German mutual and special funds alone.

- In the fee-based business with foreign exchange and derivatives we improved our fee income significantly by € 11.8 million or 17.4 % to € 79.4 million (2011: € 67.6 million). We continue to benefit in this business from the very close cooperation with companies of the HSBC Group, which mostly accept the risks of these transactions and contribute to extremely competitive pricing with their large trading books.

- Our outstanding market position with respect to the issue of bonds (Debt Capital Markets) is reflected in the strong increase in net fee income from the issuing and structuring business.

- We were able to improve our results in the lending business again and therefore implement our growth strategy in the Corporate Banking segment profitably in the fee-based business as well.

- Alternative investments have established themselves as their own asset category for our sophisticated clients. Above all institutional investors, but also to a lesser extent corporate clients and high-net-worth private clients, appreciate the diversification effect of these products. Net fee income of € 3.4 million was € 1.9 million lower than in the previous year.

Net trading income rose significantly by € 45.0 million or 38.5 % to € 161.8 million. This increase is due essentially to the extraordinary effect of a subsequent increase in compensation relating to a company merger in the first half of the year. Excluding this extraordinary effect, income from trading in equities and equity/index derivatives was far lower than in the previous year. It is the result primarily of the issue and market making of retail products such as warrants, certificates and convertible bonds. This trend in earnings shows the restraint being exercised by investors in this product area. In trading with interest-rate products (increase of € 28.7 million to € 74.3 million) on the other hand we improved our performance significantly. We were able to successfully master the comparatively high volatility of credit spreads with respect to our bond positions in interest-rate trading. Thanks to our still very good liquidity position the Treasury result was on a high level in the year under report. The foreign exchange business grew by more than 10 % from € 10.1 million the previous year to € 11.3 million. Valuation losses on derivatives in the Bank book of € 1.0 million were reported compared to valuation losses of € 4.3 million the previous year.

The previous year's administrative expenses were adjusted in accordance with IFRS, the result of the impact of a judgment by the German Federal Labour Court (BAG) with respect to the accounting of share-based payments. We go into more detail on this in Note 18. Consequently, administrative expenses of € 474.3 million reported the previous year were to be reduced by € 7.5 million to € 466.8 million. Administrative expenses for the financial year rose versus the adjusted prior-year figure by € 26.4 million or 5.7 % to € 493.2 million.

HSBC Trinkaus already dealt intensively with the group's cost situation and took up a corresponding HSBC Group initiative to increase operating efficiency in the first half of 2012 given the increase in the cost efficiency ratio in 2011. As a result of the first steps being implemented, our workforce declined slightly year-on-year from 2,577 to 2,528. The implementation of the adjustment measures increased personnel expenses. Performance-related remuneration was slightly higher than in the previous year in keeping with the improvement in the Bank's overall result. Further measures to limit costs are already clearly reflected in the trend in other administrative expenses. These were reduced by € 13.8 million compared to the previous year to € 153.0 million despite the steady rise in costs on account of growing regulatory control.

Income from financial assets improved by € 13.9 million to € 9.1 million (2011: a loss of € 4.8 million). Write-downs on investments in the real estate sector were set against significantly higher gains on disposal as well as write-ups on securities.

Other operating income and expenses came to € –8.8 million (2011: € 12.2 million). This figure essentially includes rental income which we generate above all from our real estate project in Australia. The setting up of new provisions for onerous contracts and pending legal action resulted in considerable expense on the other hand. Other net income declined by € 5.1 million to € 0.3 million due to the fact that the prior-year result included a gain of € 5.2 million from the sale of a property.

Tax expenses increased compared with the adjusted prior-year figure by € 13.2 million or 18.0 % during the financial year to € 86.5 million. This results in a tax rate of 39.4 % after 34.8 % (adjusted) the previous year. The significant increase is attributable to non-deductible expenses in the group. Most of the taxes are paid in Germany.

The asset situation

Total assets declined slightly by 2.8 % to € 20.0 billion as at the balance sheet date after € 20.6 billion the previous year. There were no major changes to the structure of our balance sheet. This is evidence of the continuity of our business model, which has proven itself again in the balanced nature of the client segments combined with risk-aware proprietary trading.

Customer deposits remain our most important source of refinancing. At € 11.9 billion they accounted for well over half of total equity and liabilities on the balance sheet date. We continue to regard this as a clear commitment on the part of the Bank's clients to its solid business policy and high credit standing. As part of the HSBC Group, HSBC Trinkaus is still the highest-rated private commercial bank in Germany with a "AA- (Stable)" rating.

On the other hand, there was a significant increase in deposits by banks. This development is mainly reporting-date-related and largely concerns money market transactions with other HSBC units.

In addition, we also refinance our business, in particular 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 just less than € 2.2 billion versus € 2.4 billion the previous year. Trading liabilities also include the negative market values of the derivatives which declined in keeping with the positive market values in trading assets. We refer to the section on our financial position for the increase in shareholders' equity.

The cash reserve and loans and advances to banks amounted together to € 1.3 billion and were therefore significantly lower compared to the previous year (2011: € 2.5 billion). This decline is balance sheet date-related.

The € 0.4 billion increase in loans and advances to customers to € 4.1 billion corresponds to the growth strategy we have embarked upon in the corporate banking business and the general guideline that we want to grow with our clients, and not by entering into risks in proprietary holdings. We still see a great deal of growth in particular here as firstly the credit lines granted to our clients were only underused and secondly, we are also planning significant new lending business for 2013 within the scope of our growth strategy.

With a share of around 46.0 % and 47.7 %, respectively, trading assets still represent the largest item on the assets side of our balance sheet as in the previous year. Bonds, which are mostly exchange-traded and also eligible, continue to account for a very high share. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. The decline in trading assets from € 9.9 billion the previous year to € 9.2 billion is the result essentially of a decline in the positive market values of derivatives which corresponds with a decline in the negative market values of derivatives reported under trading liabilities.

There was a further substantial increase in financial assets of € 0.9 billion or 21.7 % to € 5.1 billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded in recent years. We have a very limited exposure in the peripheral states in the Eurozone in both the trading portfolio and financial assets.

The financial position

No capital increases were carried out in the HSBC Trinkaus Group in 2012, not even for supplementary capital. HSBC Trinkaus & Burkhardt AG transferred € 35 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 5 June 2012. At this year's Annual General Meeting on 4 June 2013 we will propose the payment of an unchanged dividend of € 2.50 per share enabling a further allocation to retained earnings of around € 55 million from profit available for distribution.

As one of the consequences of the financial market crisis, the regulatory provisions are being comprehensively modernised. Alongside more restrictive requirements for the recognition of liable equity capital, higher minimum capital ratios in relation to the risks involved with the banking business are being defined step by step (see also Note 40).

Since our core capital already consists exclusively of subscribed capital and reserves today, we already fully meet the future requirements regarding the composition of core capital (core Tier I capital). In addition, with our long-term capital planning we have made sure that we also already exceed by far the higher capital ratios applicable in future. This means that we are very well equipped for the coming supervisory changes with respect to the capital requirements for banks and also still have scope for business expansion or acquisitions.

At € 7.0 billion our risk-weighted assets in the lending business were slightly lower than the prior-year level of € 7.1 billion. The average rating of our corporate clients and therefore the credit quality of the entire portfolio is almost unchanged compared to the previous year. The market risk equivalent declined by 13.7 % to around € 1.0 billion. The risk position for operational risks was more or less at the prior-year level at € 1.2bn in the year under report. Overall the risk exposure for regulatory purposes amounts to € 9.2 billion and is therefore around € 0.4 billion lower compared to the previous year.

Following approval of the accounts, this results in a Tier 1 capital ratio of 12.9 % and a total capital ratio of 16.6 % for the HSBC Trinkaus Group. This outstanding capitalisation will continue to provide our growth strategy with lasting support.

As a further lesson drawn from the financial market crisis, the regulatory authorities worldwide have drastically tightened the requirements for banks with respect to liquidity and the management of liquidity risk. We are already in a good position today in this regard as well. Firstly, our liquidity risk management fully meets the Minimum Requirements for Risk Management (MaRisk). Secondly, the substantial strategic liquidity cushion we have already had for some time has been continuously expanded in recent years. We were therefore able to show growth in our liquidity cushion in 2012 as well. Further details of our management of risk in general and liquidity risk in particular can be found in the chapter "Risk Management".

Outlook for 2013

The global economy should regain its stride in 2013 in principle. The comprehensive monetary and fiscal policy measures implemented to promote growth are coming to fruition above all in China. In the USA, the revival of the real estate sector is providing growth impetus in the meantime. The discussions over fiscal policy again at the beginning of the year are likely to make the cyclical recovery more difficult in the first half of 2013, though, which means that the US economy is unlikely to grow faster than in the previous year. In the Eurozone the topic of "recession" discussed at the beginning of 2013 has not yet been forgotten, but growth is likely to have bottomed out here as well. The ECB should therefore refrain from lowering interest rates again this year. However, central banks around the world will have to keep to the extremely expansive monetary policy in order not to endanger the cautious start of a recovery. The reform efforts and the respect for the deficit targets in the European peripheral states are likely to be followed with eagle eyes this year. In the event that the situation comes to a head again, the ECB has an important instrument to establish calm to hand with the "Outright Monetary Transactions" programme.

In Germany there are also growing signs of stabilisation over the course of the year. German exports should pick up again and companies abandon their reluctance to invest in the months ahead thanks to the expected revival in demand outside Europe. The slowdown on the German labour market is also likely to be limited so that private consumption remains solid in 2013. German economic growth will turn out to be more moderate than in the previous year in 2013 only on account of the difficult "starting position" at the beginning of the year. Inflation is no cause for worry at any rate and should persist at just under 2 %. The German economy and budget situation remain the positive exception, particularly in comparison with the rest of the Eurozone.

While the overall economic environment should be solid and supportive for HSBC Trinkaus owing to its business focus on Germany, other framework conditions will have a detrimental effect on the earnings situation in 2013. These include the extremely low level of money market interest rates. The Bank's solid deposit base has lost a great deal of its importance owing to the surplus liquidity provided by the ECB and a positive interest margin in the Bank's deposit-taking business can no longer be achieved, therefore limiting the trend in net interest income. Regulatory intervention and the fact that its implementation cannot be planned is putting pressure on the internal departments in particular and leading to significant increases in administrative expenses.

Our strategic orientation is affected by this to a lesser extent as we concentrate on the business with clearly-defined target client groups supplemented by trading activities which in turn are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than that of banks which have strong investment banking activities, are dependent on proprietary trading and refinance themselves via the capital markets. The capital base has also been strengthened further in recent years based on the solid earnings situation as a result of which additional capital requirements will not lead to restrictions with respect to the client business and in particular on lending.

Based on its successful business performance in 2012 the Bank is in the position to continue with its medium-term growth strategy and gain market shares in all business segments in 2013 and the following years as well. The focus is on the significant expansion of business with SME corporate clients. But we will by no means neglect market opportunities presented to us in the Global Banking segment (institutional clients and internationally operating corporations), in Private Banking as well as in the business with warrants and certificates for independently operating private investors.

This expansion strategy is based among other things on:

- qualified and committed employees who continuously pursue the Bank's values and take the clients' requirements as the starting point for their activities
- the integration into the HSBC Group as one of the world's most globally efficient banking groups

An expansion strategy means higher risks, but also greater opportunities. This applies in particular to the expansion of the lending portfolio with SME corporate clients. However, these risks appear to be manageable in the light of the positive trend in the German economy in a European context, even though the growth momentum is slowing down temporarily. Credit margins are falling below the level of adequate risk premiums again at present as a result of the surplus supply of liquidity. Nevertheless, we are prepared to expand lending if there is corresponding demand from our clients.

The continuing low interest-rate policy and surplus liquidity will put the Bank's net interest income under pressure in 2013. There will be no growth in the volume of bank revenues in the client business in Germany in 2013. We can therefore only increase our revenues in the years ahead by realising the targeted growth in market shares. With net interest income under pressure as a result of central bank policy and only modest prospects for net fee income, the revenue forecast for 2013 is only cautiously optimistic.

Strict cost management is decisive in this situation. The increase in our administrative expenses is expected to remain strictly limited in the years ahead owing to the measures being taken to increase efficiency. We will make sure that the Bank's infrastructure remains strong in the long term by making sufficient investments. We will examine the need for all personnel and material cost items in order to keep the cost efficiency ratio below the 70 % mark. Growing regulatory costs will have an increasingly counterproductive effect. We will continue to concentrate more strongly on target clients and reconsider activities which are of no strategic importance for us.

The aim is to realise a pre-tax profit which is oriented more or less towards that generated in 2012. However, the forecast for 2013 and 2014 involves considerable uncertainties.

It is a precondition that there are no further sharp declines in transaction volumes on the securities markets. In addition, the pressure arising from credit risks may not exceed the moderate projected figure which is geared towards past default rates. We anticipate that the average credit rating of our portfolio will deteriorate slightly in 2013 after the significant improvements in 2010 and 2011 and a stable level in 2012 if the expectation of a weaker economic trend to begin with, followed by an economic recovery only later on, is realised. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments, though, which could depress the result contrary to what was planned. Furthermore, the possible introduction of a financial market transaction tax is not included in our forecasts for 2013 and 2014. The introduction of this tax could lead to a significant slump in revenues depending on its configuration.

Our exposure to the euro states with particularly high debt levels is limited. We are therefore not expecting this to exert any notable direct pressure should crisis situations arise again, but we cannot rule out indirect effects in this case, for example through spread widening, also with respect to domestic securities.

HSBC Trinkaus' collaboration with the globally operating HSBC Group puts the Bank in a unique position in the SME corporate banking business and with international corporations. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner in the corporate banking business and has thus been able to acquire new clients. Our growth strategy, which includes an extended service and product offer, such as factoring, as well as enhancements in the area of payments and cash management, will further increase our credibility as a reliable partner. The growth in our client base in recent years gives us reason to believe that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The ECB's crisis-induced low interest-rate policy will lead to a level of interest rates that no longer fulfils the returns on investment required by many institutional clients. Targeted advice and the development of solutions will therefore become more important. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. The expertise in product development of the entire HSBC Group is available to our clients. For example, we have direct access to the HSBC Group's global trading books which also enable large-volume transactions and risk assumption, thus offering added value. We are expecting the very active debt capital markets business to continue, for the first few months at least, and are in an excellent position for this.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. In addition, we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. In return, we have major expertise at the Bank in the equity derivatives business as part of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates has slumped compared to previous years and is limiting the earnings opportunities in the long term. Our goal is to at least slightly increase the significantly lower earnings contribution generated in 2012. The outstanding result achieved by the Treasury activities cannot be repeated in 2013 and we therefore have to assume markedly lower net trading income overall.

In the Private Banking business we will continue to support our clients as "Trusted Advisor" and assume responsibility for the assets entrusted to us. Our business model, which is based on trust and geared towards the long term, proves itself in particular in a highly volatile market environment. We are determined to use our position as leading asset manager in the German market in the year ahead as well to win over new clients and intensify the business with existing clients. For this purpose we are working even more closely with the HSBC Group in particular in the area of investment solutions to generate added value for our clients. Our aim is to improve our earnings contribution despite the difficult environment in 2013. In addition to tapping new potential revenues, we will also keep a close eye on the development of costs which are also coming under pressure as a result among other things of more extensive regulation.

We will also closely examine opportunities to make acquisitions if they offer synergies with our existing lines of business. We do not rule out the acquisition of interesting client portfolios either if it serves to expand the Bank's client base.

The state intervention is not likely to lastingly distort competition in the banking market and therefore put pressure on market participants who responsibly carry out their business without government assistance. We therefore hope we will be able to pay our shareholders an appropriate dividend and further strengthen the Bank's capitalisation in the years ahead as well.

Risk Management

Definition

In accordance with German Accounting Standard No. 5 (DRS 5), we understand by the Risk Management System "a comprehensive set of control procedures covering all activities of an enterprise; these procedures are based on a defined risk strategy applying a systematic and consistent approach with the following components: identification, analysis, measurement, control, documentation and communication as well as the monitoring of these activities".

Principles of risk management policy

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

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. We 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 capacity to assume risk on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply.

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

The second central challenge facing our risk management was and is managing counterparty risk. The international sovereign debt crisis deteriorated dramatically in the previous year and for some countries in the Eurozone insolvency and problems with refinancing on the capital market, respectively, could only be avoided through hitherto unprecedented measures by the ECB and the creation of new bail-out institutions. Many opinions expressed and statements made by leading politicians and central bankers in Europe had to be corrected and withdrawn, respectively, severely damaging confidence in the political processes in Europe. We have already been monitoring our exposure to Eurozone states with a weak credit standing more intensively since 2010 and have carried out targeted reductions. Our exposure to these states and the banks located there is therefore narrowly limited.

The economic recovery in Germany slowed down in 2012, in particular in the second half of the year. Owing to the nevertheless relatively favourable economic situation, there was no notable risk provisioning in the Bank's income statement on balance. However, as the sovereign debt crisis dampened the further growth prospects, a negative impact is to be expected for 2013 on account of a slowdown in economic activity.

Compared to the previous year, the market fluctuations on the equity, foreign exchange and interest-rate markets were far weaker. The market risk limits were utilised only to a limited extent. There was only one anomaly in back-testing and therefore fewer than the two to three to be expected statistically.

Risk management – organisational structure

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

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

The internal audit department plays a major role in early risk detection. In its reports it highlights significant risks through the classification of its audit findings. 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 of the Bank draws up risk and control assessments which show the main risks and the key controls. Each division also has a Business Risk and Control Manager who examines the observance of the controls envisaged in the daily work processes. The Support Function Operational Risk and Information Security is responsible among other things for quality assuring the Risk and Control Assessments and carrying out the controls. This organisational structure guarantees that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

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

Strategic risk

By "strategic risk" we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. It arises from the changed environment in which banks now have to operate. The new provisions relating to capital adequacy and refinancing of the banking business will lower the profitability of our client-oriented business irrespective of the adjustment measures we carry out. The trend, which will be strengthened by increased costs resulting from other regulatory provisions, will not only apply to our Bank, though. Secondly, strategic risk arises from our strategic orientation with its very selective client focus as there is strong competition for our clients owing to their significance in the market.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues is dependent 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 have strengthened our corporate banking business and expanded the foreign business, payments transactions and receivable finance. To a certain extent, we can also counteract this risk in a targeted way thanks to our strong integration within the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

We are confident that HSBC Trinkaus' strategic position in Germany will not deteriorate as we have been able to improve our market position in all client segments in recent years. The risk premiums for counterparty risk are at present allowing more risk-adequate pricing than before the financial crisis, even though individual banks with low return-on-equity requirements are exercising a certain amount of pressure on prices and the trend towards risk-adjusted margins is already starting to wane again. This trend is being strengthened significantly in particular by the ECB continuing to provide the euro money market with excess liquidity. The low interest rate environment, which is leading to a devaluation of liabilities financed by customer deposits, represents a new challenge.

We have begun to systematically work off the accumulated demand with respect to the further modernisation of our IT architecture which arose on account of capacities being tied up for the implementation of the flat-rate withholding tax and the requirements of additional regulatory controls. The adjustment 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 the aim of which is to increase the efficiency of the Bank's operating processes and streamline the organisation overall.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. The drafts submitted 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. Not only the effort of introducing the new controls, but also complying with the rules and reporting obligations in ongoing operations is meant here. 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. We are extremely concerned about this as it will lead to a substantial increase in fixed costs for the Bank irrespective of its earnings opportunities. In addition, the income statement has been burdened by the Bank levy payable since 2011. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by a few banks acting irresponsibly. The structural and lasting decline in the return on equity associated with the process of transformation in the banking sector will have a fundamental effect on all banks. HSBC Trinkaus is already actively preparing for the coming changes.

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

On a positive note, the Bank's strategic orientation has proven itself in the crisis and we are confident that we will be able to gain market shares thanks to our consistent client orientation and good capital adequacy.

Counterparty risk

(a) Organisation of the credit processes

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

The credit risk strategy coordinated with the Audit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to the current requirements on a regular basis. 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 risk in a professional and timely way in cooperation with the customer service officer, credit analyst and credit approver.

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.

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

In accordance with the statutory provisions (approval powers), the Management Board has duly delegated loan approval authority (differentiated by exposure 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.

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

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

The Bank uses a 23-stage rating system to classify the credit quality of its corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers.

The rating system for the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from his/her 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 selectivity of the rating system is proven annually on the basis of a large external database of German companies with very good results.

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. All HSBC rating systems also include a qualitative evaluation of the company and its economic environment which is drawn up by the responsible customer service officer in Germany in collaboration with the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

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. The probabilities of default are essentially derived from the rating categories. On this basis, we estimate the expected loss for the individual loan exposures taking the collateral into account.

The Risk Models & Control department acts as the counterparty risk monitoring unit on portfolio level and is responsible for the maintenance, monitoring and further development of the credit-risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

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 assessed whether 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.

A risk limit system is used to help monitor the utilisation of credit facilities. It includes daily monitoring to make sure that approved lines of credit are not being exceeded.

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.

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 ('loss events", see also point (g)). In order to calculate this provision, the future payments from the loan and if necessary from the realization of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

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

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

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

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

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.

(b) Maximum default risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities (financial guarantees) and lending commitments can be affected by default risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. We pay greater attention to this risk despite the extremely short settlement periods. 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. The maximum default risk pursuant to IFRS 7 corresponds to the gross book value of the financial assets including OTC derivatives. The netting provisions under IAS 32 as well as the impairments for financial investments under IAS 39 are taken into consideration in the gross book value. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum default risk corresponds to the highest amount the bank would have to pay in the event of a claim under the guarantee. The maximum default risk 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.

HSBC Trinkaus' maximum default risk according to this definition breaks down as follows as at the balance sheet date:

	31.12.2012		31.12.2011	
	in €m	in %	in €m	in %
Loans and advances	**5,154.4**	**19.6**	**5,574.8**	**21.3**
to banks	1,075.3	4.1	1,857.6	7.1
to customers	4,079.1	15.5	3,717.2	14.2
Trading assets	**8,978.2**	**34.2**	**9,481.2**	**36.3**
Bonds and other fixed-income securities	3,853.2	14.7	4,312.0	16.5
Equities and other non-fixed-income securities	807.9	3.1	561.1	2.1
Tradable receivables	1,770.9	6.7	1,892.5	7.2
OTC derivatives	1,595.1	6.1	1,952.0	7.5
Reverse repos/securities lending	123.2	0.5	119.4	0.5
Cash deposits	827.9	3.2	644.2	2.5
Financial assets	**5,068.3**	**19.3**	**4,164.7**	**16.0**
Bonds and other fixed-income securities	4,612.9	17.6	3,768.9	14.4
Equities	38.9	0.1	40.2	0.2
Investment certificates	80.2	0.3	73.9	0.3
Promissory note loans	235.6	0.9	180.9	0.7
Investments	100.7	0.4	100.8	0.4
Contingent liabilities	**1,805.6**	**6.9**	**1,746.1**	**6.7**
Loan commitments	**5,253.7**	**20.0**	**5,156.4**	**19.7**
Total	**26,260.2**	**100.0**	**26,123.2**	**100.0**

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

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

in €m	31.12.2012				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments*	Total
Total	1,075.3	4,079.1	1,805.6	5,253.7	12,213.7
of which uncollateralised	997.1	3,176.7	1,619.1	5,253.7	11,046.6
of which fully collateralised	73.2	353.1	104.2	0.0	530.5
of which partly collateralised	5.0	549.3	82.3	0.0	636.6
Amount of partial collateralisation	4.5	397.9	50.3	0.0	452.7

in €m	31.12.2011				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments*	Total
Total	1,857.6	3,717.2	1,746.1	5,156.4	12,477.3
of which uncollateralised	1,808.6	3,173.3	1,655.5	5,156.4	11,793.8
of which fully collateralised	49.0	349.5	84.1	0.0	482.6
of which partly collateralised	0.0	194.4	6.6	0.0	201.0
Amount of partial collateralisation	0.0	35.6	1.1	0.0	36.7

* Collateral is only considered upon utilisation.

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

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a program which links the key data of the guarantees to the account and securities account data. Standard loan-to-value ratios for various financial guarantees are predetermined for the valuation, from which the person responsible can derivate if necessary by making decisions in individual cases (e.g. to avoid cluster risks). If no valuation is available 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. 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/rating 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 50 % (mainly commercial use) or 60 % (mainly residual use) of the lastingly achievable market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

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

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 5 years at the latest. If the loan secured by a charge on property exceeds the normal lending framework of 50 % or 60 % of the value of the property serving as collateral, an annual revaluation is required, though. As regards assignments and transfers of title as security, the persons responsible are to determine 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.

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

(d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2012				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments *	Total
Neither overdue, nor impaired	1,075.3	4,046.0	1,804.6	5,251.5	12,177.4
Overdue, but not impaired	0.0	0.8	0.0	0.0	0.8
Individually impaired*	0.0	32.3	1.0	2.2	35.5
Total	**1,075.3**	**4,079.1**	**1,805.6**	**5,253.7**	**12,213.7**

in €m	31.12.2011				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments *	Total
Neither overdue, nor impaired	1,857.6	3,666.5	1,740.8	5,144.9	12,409.8
Overdue, but not impaired	0.0	0.8	0.0	0.0	0.8
Individually impaired*	0.0	49.9	5.3	11.5	66.7
Total	**1,857.6**	**3,717.2**	**1,746.1**	**5,156.4**	**12,477.3**

* including the setting-up of credit risk provisions

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

in €m	31.12.2012			31.12.2011		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	2,027.6	2,077.0	4,104.6	1,898.4	1,705.1	3,603.5
AA + to AA-	1,590.7	1,388.9	2,979.6	2,151.1	1,546.2	3,697.3
A + to A -	115.2	623.6	738.8	70.9	148.4	219.3
BBB + to BBB -	94.7	304.7	399.4	42.4	180.9	223.3
Lower than BBB -	7.0	87.5	94.5	12.1	43.6	55.7
No rating	18.0	131.2	149.2	137.1	144.8	281.9
Total	**3,853.2**	**4,612.9**	**8,466.1**	**4,312.0**	**3,768.9**	**8,080.9**

OTC derivatives

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

		31.12.2012		31.12.2011	
		in €m	in %	in €m	in %
OECD	Banks	1,318.5	82.7	1,357.0	69.5
	Financial institutions	67.8	4.3	312.0	16.0
	Other	206.8	13.0	282.3	14.5
Non-OECD	Banks	1.1	0.1	0.7	0.0
	Financial institutions	0.0	0.0	0.0	0.0
	Other	0.7	0.0	0.0	0.0
Total		1,595.1	100.0	1,952.0	100.0

(e) 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 (see section: Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the loan exposures can be mapped onto seven credit categories. Credit categories 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as at the balance sheet date was as follows:

in €m	31.12.2012				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	959.5	1,362.2	1,000.8	2,608.2	5,930.7
Credit categories 3–4	115.8	2,645.5	770.9	2,569.3	6,101.5
Credit category 5	0.0	38.3	32.9	74.0	145.2
Total	1,075.3	4,046.0	1,804.6	5,251.5	12,177.4

in €m	31.12.2011				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	1,784.1	1,681.9	940.1	2,993.2	7,399.3
Credit categories 3–4	73.5	1,969.2	791.0	2,108.8	4,942.5
Credit category 5	0.0	15.4	9.7	42.9	68.0
Total	1,857.6	3,666.5	1,740.8	5,144.9	12,409.8

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

(f) 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 € 0.8 million in the year under report (2011: € 0.8 million) and are exclusively to customers. € 0.7 million (2011: € 0.5 million) is the result of the purchase of credit-insured foreign accounts receivable. The fair value of the collateral stood at € 0.6 million in the year under report (2011: € 0.1 million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full. There are also overdue, but not impaired claims resulting from excess interest of € 0.1 million (2011: € 0.3 million) for which adequate collateral is also available in the form of charges on property, the fair value of which fully covers the claims. Of the overdue, but not impaired receivables, € 0.6 million is less than 30 days overdue, € 0.1 million less than 90 days and € 0.1 million more than one year overdue.

(g) Information on exposures for which credit risk provisions have been set up

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset ("loss event"). 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 the person responsible. Problematic exposures, for which net loan impairment and other credit risk provisions have been set up, are classified as being in default in terms of their credit rating and are therefore automatically assigned to the credit category 6 or 7. In order to allow for country risks, net loan impairment and other credit risk provisions can also be set up for exposures with higher credit ratings. These stood at € 1.0 million in the year under report (2011: € 1.3 million).

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

in €m	31.12.2012			31.12.2011		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before IAI*						
Credit category 6	0.0	29.9	29.9	0.0	44.9	44.9
Credit category 7	0.0	2.4	2.4	0.0	5.0	5.0
Total	0.0	32.3	32.3	0.0	49.9	49.9
IAI*						
Credit category 6	0.0	11.1	11.1	0.0	15.1	15.1
Credit category 7	0.0	1.8	1.8	0.0	1.5	41.5
Total	0.0	12.9	12.9	0.0	16.6	16.6
Book value after IAI*	0.0	19.4	19.4	0.0	33.3	33.3

* IAI: Individually assessed impairments

Within the scope of credit risk provisions HSBC Trinkaus also makes credit provisions for individual contingent liabilities and loan commitments as a rule. In the year under report, however, there was no need to make such credit provisions, as was already the case the previous year.

In addition to individually assessed impairments, the bank also carries out collectively assessed impairments. These stood at € 12.3 million (2011: € 10.5 million) for loans and advances and € 4.1 million (2011: € 3.2 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 33.6 million (2011: € 35.9 million) as at the balance sheet date.

(h) Information on collateral received

For loans and advances which have been individually impaired, the bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 13.0 million (2011: € 18.7 million) in the year under report.

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

Collateral and other credit improvements amounting to € 2.5 million were realised and drawn on, respectively, in the 2012 financial year (2011: € 0.0 million).

(j) Information on credit 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 HSBC Trinkaus is then influenced strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of the 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 addresses in order to achieve the greatest possible distribution of the risk in the lending business.

As at the balance sheet date the Bank's theoretical maximum default risk breaks down as follows:

	31.12.2012		31.12.2011	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	10,523.8	40.1	10,191.0	39.0
Banks and financial institutions	9,975.7	38.0	10,334.2	39.5
Public sector	5,468.1	20.8	5,245.1	20.1
Employed private individuals	292.6	1.1	352.9	1.4
Total	**26,260.2**	**100.0**	**26,123.2**	**100.0**

	31.12.2012		31.12.2011	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	16,811.0	64.0	16,606.3	63.5
Other EU (including Norway and Switzerland)	7,750.9	29.5	7,436.7	28.4
Asia	707.6	2.7	719.7	2.8
Rest of Europe	461.4	1.8	520.8	2.0
North America	325.5	1.2	676.3	2.6
South America	145.7	0.6	123.3	0.5
Africa	45.5	0.2	23.4	0.1
Oceania	12.6	0.0	16.7	0.1
Total	**26,260.2**	**100.0**	**26,123.2**	**100.0**

The breakdown by sector shows that the maximum default risk exists vis-à-vis banking organisations on the one hand and companies and self-employed professionals on the other. Other units of the HSBC Group account for € 2,963.9 million (2011: € 3,874.1 million) of the default risk vis-à-vis banking organisations.

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

There was no exposure to Greece, Ireland, Portugal, Spain, Italy and Hungary as at 31 December 2012. There was exclusively covered bond exposure vis-à-vis banks in Spain, Ireland and Italy amounting to € 81 million, € 35 million and € 1 million, respectively, while there was no exposure vis-à-vis banks in the other states mentioned. In Spain, Italy, Ireland, Hungary and Portugal there was exposure vis-à-vis non-banks of € 86 million, € 40 million, € 48 million, € 2 million and € 1 million, respectively, while there was no exposure vis-à-vis non-banks in Greece. It can be summarised that our credit exposure to and in the states mentioned are kept within very narrow limits.

(k) Credit portfolio management

The Risk Models & Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks 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. Parallel to this, the RiskFrontier portfolio model employed on HSBC level is used in order to substantiate the reporting date-related concentration and migration risks. 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).

(l) Stress tests

Both the internal and the external risk-sensitive assessment 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 Risk Models & Controls department involving the Credit department and the Corporate Banking segment. 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 from external events. Operational risks exist in any area of an organisation and embrace a broad spectrum. Legal risks are also regarded as operational risks.

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 which ensure that the key controls are carried out in accordance with the working process descriptions applicable in each case and that the risk is reduced to the degree required from the cost-benefit point of view. For this purpose all important controls are examined in detail and the results of these examinations formally documented in order to introduce on this basis the necessary improvement measures if required. The Support Function Operational Risk and Information Security monitors the valuation of risks and the execution of the controls in the second level. The third level is covered by the internal audit department within the scope of carrying out audit reports.

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

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

The minutes of the Committee meetings are approved and particularly important points discussed in the Management Board meetings. This ensures that all Management Board members are constantly informed about current developments and the Bank's risk profile.

Once a year the head of the Support Function Operational Risk and Information Security reports to the Audit Committee of the Supervisory Board on all activities of the Support Function 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 establishing a risk culture in the HSBC Group whereby risks are not only identified at an early stage, but are 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. Regular training is therefore carried out in the various business areas of the Bank. In addition, each new employee must participate in obligatory training on the topic of operational risk.

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

One central method of proactively determining material risk is so-called risk and control assessment. As part of a structured brainstorming process, tthe core risks along with the core controls are identified and documented for a segment or process. The process includes assessing the expected typical losses from operational risk and also evaluates the extreme risk potential. In this context direct financial costs and indirect consequences in terms of 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 risks, including their valuation, supervision implemented, measures introduced as well as losses incurred, are formally documented in a system developed by the HSBC Group. The individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

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

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

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

So-called Business Information Risk Officers are appointed in all business segments and at all subsidiaries. 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. The Chief Information Security Officer is responsible for drawing up and implementing a strategy and corresponding programmes which ensure that the Group's data and information are adequately protected.

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

Market risk

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

To measure market risks under normal market conditions we have been using for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the consolidated financial statements for the valuation of the financial instruments included in the model). 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 in particular:

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

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

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In addition, the evaluated result taking new business into consideration has also been used in back-testing since 2012. Back-testing anomalies were found throughout the Bank in 2012. This continues to suggest that the modelling employed is probably on the conservative side.

The model is used for all of the Group's units. These include the trading and investment books of the parent company and the Luxembourg subsidiary as well as the special assets liable to consolidation in the investment book. The following table shows the main sources of market risk: the aggregated trading books of the parent company and the Luxembourg subsidiary.

The total market risk from these two sources is as follows:

in €m	2012			
	31.12.	Average	Minimum	Maximum
Interest-rate risk	1.0	0.8	0.4	1.6
Currency risk	0.5	0.1	0.0	0.5
Equity/index risk	0.5	1.1	0.4	3.6
Credit spread risk	3.3	3.0	2.1	4.0
Commodities risk	0.0	0.0	0.0	0.1
Total potential market risk in the trading book	**3.8**	**3.2**	**2.4**	**4.4**

in €m	2011			
	31.12.	Average	Minimum	Maximum
Interest-rate risk	1.0	1.4	0.7	2.6
Currency risk	0.1	0.2	0.0	0.8
Equity/index risk	0.8	1.3	0.5	5.7
Credit spread risk	2.7	2.4	1.5	3.7
Commodities risk	0.0	0.0	0.0	0.2
Total potential market risk in the trading book	**2.7**	**3.1**	**1.7**	**7.5**

Risks relating to interest rates (including general credit spread risks) and equities still represent the Bank's greatest market risks. 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.

The average market risk potential in the regulatory investment book (99 % confidence interval / one-day holding period) came to € 6.5 million (2011: € 7.3 million).

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

The so-called credit risk amount has also been reported since 31 December 2011. The underlying period of particular stress on the markets was still identified as March 2008 to February 2009. The model used to calculate the crisis risk amount is largely the same as that used to determine the normal value-at-risk. While the credit risk amount was still far above the nominal value-at-risk at the beginning of 2012, the difference became successively smaller over the course of the year owing to the weaker influence of share-price risks.

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

Value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater to 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 is 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.

Compliance with all risk limits is monitored every day by Market Risk Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

Liquidity risk

(a) Liquidity risks management

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

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

While operating liquidity management is carried out by the Treasury team, the Asset and Liability Management Committee (ALCO) is responsible for the bank's structural liquidity risk within the scope of limits agreed with HSBC. ALCO's duties include monitoring liquidity and financing ratios, the regular adjustment of the liquidity risk strategy and transfer pricing for liquidity within the Bank. Treasury is responsible for regularly updating the emergency liquidity plan.

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

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

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

(b) Advances/core funding ratio

The advances/core funding ratio represents a central funding ratio. It expresses the volume of customer loans granted in relation to the volume of long-term capital market financing raised and to the customer deposits qualified as core funding. Owing to the differentiation between core funding and non-core funding, this ratio is higher than the ratio of loans and advances to customers to customer deposits, which can be derived from the balance sheet. This ratio stood at 34.3 % at the end of the year (2011: 29.9 %) versus an advances/core funding ratio of 73.0 % (2011: 56.1 %).

(c) Liquidity forecasts and liquidity cushion

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

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 evaluation 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 the most important internal liquidity ratio. It must be clearly positive.

Large parts of the liquidity cushion consist of public sector bonds, Pfandbriefe and other eligible assets which are not used otherwise as collateral and for which we carry out different valuation mark-downs depending on the scenario. Securities or cash collateral transferred to third parties for collateral or margin obligations are not included in the liquidity cushion. As at 31 December 2012 we had deposited most of these assets with a collateral value of € 5.28 billion at the Bundesbank (2011: € 4.74 billion) giving us potential access to central bank loans to this extent. With the exception of a test transaction to validate our emergency liquidity plan, we did not participate in any new ECB main refinancing transactions in 2012.

At the end of the year the forecast inflow of funds together with the proceeds from the liquidation of the liquidity cushion in the relevant stress scenario amounted to 107 % of the forecast outflow of funds after three months (2011: 108 %).

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

(d) 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. As at 31 December 2012 the Bank had received € 150.6 million (2011: € 107.4 million) and provided € 827.9 million (2011: € 644.2 million) in cash collateral under such collateral riders.

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

in €m	31.12.2012						
			Gross outflow (not discounted)				
	Book value	Σ	< 1m	1–3m	3–12m	12m–4y	> 4y
Financial liabilities within the balance sheet:							
Deposits by banks	1,052.7	1,052.8	1,038.2	0.7	8.7	5.2	0.0
Customer accounts	11,894.5	11,902.3	10,495.0	764.6	347.6	253.0	42.1
Certificated liabilities	10.0	12.0	0.4	0.0	0.0	1.2	10.4
Trading liabilities (excluding derivatives*)	2,389.4	2,687.9	514.8	141.7	568.7	427.5	1,035.2
Derivatives in hedging relationships	70.4	85.0	0.0	0.0	0.0	41.1	43.9
Provisions**	136.9	151.3	108.5	0.0	0.0	0.0	42.8
Other liabilities	274.9	276.7	57.3	13.6	146.1	52.6	7.1
Subordinated capital	353.4	560.1	0.0	0.0	7.9	141.9	410.3
Sub-total	16,182.2	16,728.1	12,214.2	920.6	1,079.0	922.5	1,591.8
Financial liabilities outside the balance sheet:							
Financial guarantees	1,805.6	1,805.6	1,805.6	0.0	0.0	0.0	0.0
Loan commitments	5,253.6	5,253.6	5,253.6	0.0	0.0	0.0	0.0
Total	**23,241.4**	**23,787.3**	**19,273.4**	**920.6**	**1,079.0**	**922.5**	**1,591.8**

in €m	31.12.2011						
			Gross outflow (not discounted)				
	Book value	Σ	< 1m	1–3m	3–12m	12m–4y	> 4y
Financial liabilities within the balance sheet:							
Deposits by banks	749.6	750.0	729.9	1.3	2.4	16.4	0.0
Customer accounts	12,413.3	12,422.3	10,763.7	924.4	441.8	250.3	42.1
Certificated liabilities	10.0	12.4	0.4	0.0	0.0	1.2	10.8
Trading liabilities (excluding derivatives*)	2,614.6	2,910.8	456.2	146.0	700.8	739.9	867.9
Derivatives in hedging relationships	39.5	49.6	0.0	0.0	0.0	10.6	39.0
Provisions**	103.4	116.0	86.5	0.0	0.0	0.0	29.5
Other liabilities***	235.0	236.7	56.4	10.3	113.8	48.5	7.7
Subordinated capital	353.4	563.6	5.7	0.0	0.0	110.3	447.6
Sub-total***	16,518.8	17,061.4	12,098.8	1,082.0	1,258.8	1,177.2	1,444.6
Financial liabilities outside the balance sheet:							
Financial guarantees	1,175.7	1,175.7	1,175.7	0.0	0.0	0.0	0.0
Loan commitments	5,156.4	5,156.4	5,156.4	0.0	0.0	0.0	0.0
Total* **	**22,850.9**	**23,393.5**	**18,430.9**	**1,082.0**	**1,258.8**	**1,177.2**	**1,444.6**

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

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

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

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

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

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, 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 in the table below:

in €m		< 1m	1–3m	3–12m	12m–4y	> 4y	No fixed term	Total
Deposits by banks	31.12.2012	821.3	139.2	112.4	2.4	0.0	0.0	1,075.3
	31.12.2011	1,522.3	127.9	207.4	0.0	0.0	0.0	1,857.6
Customer accounts	31.12.2012	2,269.8	1,132.0	405.7	260.9	10.7	0.0	4,079.1
	31.12.2011	1,979.5	1,029.3	567.7	125.6	15.1	0.0	3,717.2
Trading assets*/**	31.12.2012	9,212.6	0.0	0.0	0.0	0.0	0.0	9,212.6
	31.12.2011	9,852.3	0.0	0.0	0.0	0.0	0.0	9,852.3
Financial assets	31.12.2012	81.8	31.3	402.9	2,821.9	1,510.6	219.8	5,068.3
	31.12.2011	147.3	191.2	275.7	1,791.0	1,544.6	214.9	4,164.7
Other assets	31.12.2012	1.1	0.0	10.9	0.0	0.0	200.1	212.1
	31.12.2011	4.1	0.0	6.2	0.0	0.0	202.8	213.1
Total	**31.12.2012**	**12,386.6**	**1,302.5**	**931.9**	**3,085.2**	**1,521.3**	**419.9**	**19,647.4**
	31.12.2011	**13,505.5**	**1,348.4**	**1,057.0**	**1,916.6**	**1,559.7**	**417.7**	**19,804.9**

in €m		< 1m	1–3m	3–12m	12m–4y	> 4y	No fixed term	Total
Customer banks	31.12.2012	1,038.2	0.7	8.7	5.1	0.0	0.0	1,052.7
	31.12.2011	729.8	1.3	2.4	16.1	0.0	0.0	749.6
Customer Clients	31.12.2012	10,494.6	763.8	346.6	249.0	40.5	0.0	11,894.5
	31.12.2011	10,763.2	923.3	440.4	246.1	40.3	0.0	12,413.3
Debt securities in issue	31.12.2012	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2011	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2012	4,804.2	0.0	0.0	0.0	0.0	0.0	4,804.2
	31.12.2011	5,386.5	0.0	0.0	0.0	0.0	0.0	5,386.5
Provisions***	31.12.2012	108.6	0.0	0.0	0.0	28.3	0.0	136.9
	31.12.2011	86.5	0.0	0.0	0.0	16.9	0.0	103.4
Other liabilities****	31.12.2012	57.3	13.6	145.6	51.7	6.7	0.0	274.9
	31.12.2011	56.4	10.3	113.4	47.6	7.3	0.0	235.0
Subordinated capital	31.12.2012	0.0	0.0	7.7	118.3	227.4	0.0	353.4
	31.12.2011	5.7	0.0	0.0	91.9	255.8	0.0	353.4
Total****	**31.12.2012**	**16,502.9**	**778.1**	**508.6**	**424.1**	**312.9**	**0.0**	**18,526.6**
	31.12.2011	**17,028.1**	**934.9**	**556.2**	**401.7**	**330.3**	**0.0**	**19,251.2**

* 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 pursuant to their contractual maturities can be found in Note 59.

** excluding derivatives which are part of a hedging relationship

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

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

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2012	2011
31.12.	2.18	2.13
Minimum	1.69	1.68
Maximum	2.23	2.27
Average	1.96	2.03
Reference value in accordance with Section 2 LiqV	**1.00**	**1.00**

In December 2010 the Basel Committee on Banking Supervision published the International framework for liquidity risk measurement, standards and monitoring. The framework includes two liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both ratios are part of the Capital Requirement Directive (CRD IV), which has not yet been finally passed. The Basel Committee on Banking Supervision published a revised version of the LCR on 6 January 2013.

There is a significant need for interpretation when applying the ratios at present. We therefore regard it as unnecessary to publish these ratios as long as their basis of calculation has not been finally stipulated and the ratios cannot be compared on an institution-wide basis.

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

In addition, we have formulated a code of conduct in writing which expresses our understanding of values and our behavioural standards. The Management Board and all employees have committed themselves to this 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 Support Functions Accounting and Controlling as part of the finance function.

The Support 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 the Support Function Accounting.

The Support Function Controlling 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 Support Function Risk Control 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 Chairman of the Committee is the Management Board member responsible for Financing. Further members include the heads of Risk Control and Accounting as well as the Chief Operating Officer Markets as the representative of the trading departments.

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 concerning the appropriation of profit available for distribution.

The annual financial statements including the management report as well as of 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 Internal Control System. Wolfgang Haupt, Düsseldorf, was Chairman of the Audit Committee until 31 December 2012. Further members at this time were Deniz Erkman, Krefeld, Dr. Hans Michael Gaul, Düsseldorf, and Harold Hörauf, Eggstätt.

The external auditors are elected at the Annual General Meeting for the current financial year. 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 and prove their independence 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 and Internal Control System 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 automatically transfer the accounting records for these business transactions (machine registers) to integrated accounting. 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 programs developed by the Bank itself as well as individual data processing programs (Microsoft Excel and Access) are used to complement integrated accounting. The programs are used to determine accounting data which are then transferred to integrated accounting. They consist essentially of systems for entering and recording provisions, entering and paying incoming invoices, drawing up outgoing invoices and entering simple booking records as well as applications for account reconciliation, investment accounting and the presentation of the development of fixed assets and summary of movements in provisions.

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

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

General structure of the ICS

The main principles for the structure of the ICS with regard to 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 with regard to 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 the trade confirmations 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 with respect to the 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 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 and automatically consolidated by HSBC. Any substantial differences arising are reported to the companies concerned on a quarterly basis and are to be promptly clarified.

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

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

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

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

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

(j) Analysis of special business transactions
The customer-servicing 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 internal control process 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 the monthly income statement is complete, 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/her comments to the other Management Board members for discussion in the next Management Board meeting. The discussion by the Management Board guarantees the initial monthly plausibility check of the group figures by the overall Management Board. In addition, all Management Board members receive a detailed monthly report drawn up and commented on by Controlling which includes the trend in revenues and costs for both the Group as a whole and the main subsidiaries. The revenues and costs are also shown broken down by product and business segment. An additional quarterly report is drawn up by Controlling in the quarterly results, which makes the revenues and costs of all subsidiaries broken down into private and corporate banking business as well as the revenues and costs of all product specialists in the individual client groups transparent for all Management Board members.

Staff

Number of employees and persons receiving pensions

We had a total of 2,528 employees at the end of 2012, compared to 2,577 at the end of the previous year, representing a slight reduction of 1.9 %. At the end of 2012 we were also paying retirement, widow's and orphan's pensions to 584 recipients, compared to 571 at the end of 2011.

Training activities

A total of 36 highly-motivated apprentices are currently working at the Bank towards professional qualifications in banking, IT and office communication. Four of the banking apprentices are attending a parallel part-time Bachelor of Arts study course in Business Administration at the Hochschule für Oekonomie & Management. In addition, five apprentices are working towards investment fund specialist qualifications at Internationale Kapitalanlagegesellschaft mbH, and a further seven towards professional office communication qualifications at HSBC Transaction Services GmbH. We are proud of the fact that a total of 23 trainees in the HSBC Group successfully completed their training this year as well and that our trainees achieved the best grades in the state of NRW in the professional field of office communications. We received an award from the Bonn/Rhein-Sieg Chamber of Commerce and Industry for being the state's best training establishment and were also honoured by the Düsseldorf Chamber of Commerce and Industry for the sixth year in succession for special services in our professional training.

Advanced training

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

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

Performance-related remuneration

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

The employee compensation system is regulated by the collective wage agreements for the private banking industry and the public sector banks for tariff employees and stipulated by the Management Board for non-tariff employees. In addition to a fixed salary, which is reviewed annually, the non-tariff employees receive variable compensation which is stipulated by the Management Board on a discretionary basis for each individual employee based on proposals from the divisional heads. Observing the provisions of the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) and in keeping with the principles of the HSBC Group regarding the payment of variable compensation, it is paid entirely in cash or partly in cash and partly as an allocation of shares in HSBC holdings plc. According to the principles of the HSBC Group, it is envisaged with respect to the variable compensation for the 2012 financial year that it will be paid entirely in cash in March 2013 up to an amount of € 60,000. Between 10 % and 50 % of the variable compensation exceeding this amount will be paid in HSBC shares depending on the amount. The cash component will be paid in March 2013 and a third of the HSBC shares will be transferred in each of the following three years, 2014, 2015 and 2016. For individual employees half of the entire variable remuneration consists of a cash payment and half of an allocation of shares in HSBC Holdings plc. 40 % of these shares will be transferred in the 2013 financial year and 60 %, of which a third in each case, in the next three financial years, in other words from 2014 to 2016. A further holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc. The overall amount of all fixed compensation paid in the HSBC Trinkaus & Burkhardt Group in 2012, including the fixed compensation paid for the Management Board, came to € 164.4 million. 1,352 persons received variable compensation for the 2012 financial year totalling € 66.6 million in 2013. These figures include the variable compensation for the Management Board.

Thanks

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

Shareholders and Shares

Capital

At 31 December 2012 the Bank's issued share capital was € 75.4 million divided into 28.1 million no-par value shares as in the previous year. 55.2 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

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

Share price and market value

During 2012 our share price declined by 3.3 % to € 87.19. The lowest fixing price of the year was € 82.00 and the highest € 92.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in €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

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

Dividends

For the 2012 financial year we propose paying a dividend of € 2.50 per share (2011: € 2.50 per share). With a dividend total of € 70.3 million (2011: € 70.3 million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2012.

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2012	31.12.2011*	01.01.2011*	Change** in €m	Change** in %
Cash reserve	(20)	265.0	672.2	336.1	–407.2	–60.6
Loans and advances to banks	(5, 21)	1,075.3	1,857.6	1,402.9	–782.3	–42.1
Loans and advances to customers	(5, 22)	4,079.1	3,717.2	3,089.6	361.9	9.7
Net loan impairment provision	(7, 23)	–25.2	–27.1	–49.1	1.9	–7.0
Trading assets	(5, 24)	9,212.6	9,852.3	10,130.6	–639.7	–6.5
Financial assets	(5, 25)	5,068.3	4,164.7	3,305.9	903.6	21.7
Share of profit in associates	(9, 26)	55.1	65.2	38.0	–10.1	–15.5
Property, plant and equipment	(10, 27)	80.6	79.3	83.1	1.3	1.6
Intangible assets	(11, 27)	23.7	31.3	38.9	–7.6	–24.3
Taxation recoverable	(15, 28)	1.2	9.4	4.3	–8.2	–87.2
current		1.2	8.6	4.3	–7.4	–86.0
deferred		0.0	0.8	0.0	–0.8	>100
Other assets	(29)	212.1	213.1	203.7	–1.0	–0.5
Total assets		**20,047.8**	**20,635.2**	**18,584.0**	**–587.4**	**–2.8**

Liabilities in €m	(Note)	31.12.2012	31.12.2011*	01.01.2011*	Change** in €m	Change** in %
Deposits by banks	(5, 32)	1,052.7	749.6	1,180.4	303.1	40.4
Customer accounts	(5, 33)	11,894.5	12,413.3	10,148.0	–518.8	–4.2
Certificated liabilities	(34)	10.0	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	4,874.6	5,426.0	5,200.1	–551.4	–10.2
Provisions	(7, 14, 23, 36)	136.9	103.4	96.5	33.5	–32.4
Taxation	(15, 37)	65.7	48.3	56.2	17.4	35.8
current		53.4	48.3	52.6	5.1	10.5
deferred		12.3	0.0	3.6	12.3	>100
Other liabilities	(38)	274.9	235.0	249.7	39.9	17.0
Subordinated capital	(39)	353.4	353.4	378.4	0.0	0.0
Shareholders' equity	(40)	1,385.0	1,296.1	1,264.6	88.9	6.9
Share capital		75.4	75.4	75.4	0.0	0.0
Capital reserve		354.3	363.2	351.7	–8.9	–2.5
Retained earnings		733.9	673.0	604.4	60.9	9.1
Valuation reserve for financial instruments		160.6	88.5	125.3	72.1	81.4
Valuation reserve for actuarial profits and losses		–69.6	–38.5	–29.8	–31.1	80.8
Valuation reserve from currency conversion		–2.8	–2.8	–1.8	0.0	0.0
Consolidated profit available for distribution		133.2	137.3	139.4	–4.1	–3.0
Minority interests	(41)	0.1	0.1	0.1	0.0	0.0
Total equity and liabilities		**20,047.8**	**20,635.2**	**18,584.0**	**–587.4**	**–2.8**

* prior-year figures adjusted. The adjustments are explained in Note 18.
** Change from 31 December 2011 to 31 December 2012

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated income statement

Income statement in €m	(Note)	2012	2011*	Change	
				in €m	in %
Interest income		253.7	238.0	15.7	6.6
Interest expense		78.0	89.1	–11.1	–12.5
Net interest income	(17, 42)	175.7	148.9	26.8	18.0
Net loan impairment and other credit risk provisions	(7, 43)	0.9	–12.7	13.6	>100.0
Share of profit in associates	(44)	–8.1	0.7	–8.8	>100.0
Fee income		712.1	681.5	30.6	4.5
Fee expenses		328.4	296.0	32.4	10.9
Net fee income	(17, 45)	383.7	385.5	–1.8	–0.5
Net trading income	(17, 46)	161.8	116.8	45.0	38.5
Administrative expenses	(47)	493.2	466.8	26.4	5.7
Income from financial assets	(17, 48)	9.1	–4.8	13.9	>100.0
Net other income	(17, 49)	–8.4	17.6	–26.0	>100.0
Pre-tax profit		**219.7**	**210.6**	**9.1**	**4.3**
Tax expenses	(15, 50)	86.5	73.3	13.2	18.0
Net profit		**133.2**	**137.3**	**–4.1**	**–3.0**
Consolidated profit/loss attributable to minority shareholders		0.0	0.0	0.0	0.0
Consolidated profit/loss attributable to HSBC Trinkaus shareholders		133.2	137.3	–4.1	–3.0

* prior-year figures adjusted. The adjustments are explained in Note 18.

Reconciliation from net income to comprehensive income

in €m	2012	2011*
Net profit	133.2	137.3
Gains/losses after tax not recognised in the income statement	41.0	–46.5
of which from financial instruments	72.1	–36.8
of which from actuarial results	–31.1	–8.7
of which from currency conversion	0.0	–1.0
Comprehensive income	**174.2**	**90.8**
Attributable to:		
Minority interests	0.0	0.0
HSBC Trinkaus shareholders	174.2	90.8

* prior-year figures adjusted. The adjustments are explained in Note 18.

Cf. Note 40 on the development of unrealised gains/losses from financial instruments.

Earnings per share

	2012	2011*
Net profit in €m	133.2	137.3
Minority interests in €m	0.0	0.0
Net profit after tax and minority interests in €m	133.2	137.3
Average number of shares in circulation in million	28.1	28.1
Earnings per share in €	**4.74**	**4.88**
Undiluted earnings per share in €	**4.74**	**4.88**

* prior-year figures adjusted. The adjustments are explained in Note 18.

As at the end of the previous year, no subscription rights were outstanding at the end of the 2012 financial 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 (2010: € 2.50 per share).

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Valuation reserve for financial instruments	Valuation reserve for actuarial profits and losses	Valuation reserve from currency conversion	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
At 31.12.2010	**75.4**	**354.0**	**627.2**	**125.3**	**−29.8**	**−1.8**	**139.4**	**1,289.7**	**0.1**	**1,289.8**
Retrospective adjustment*	0.0	−2.3	−22.8	0.0	0.0	0.0	0.0	−25.1	0.0	−25.1
At 01.01.2011*	75.4	351.7	604.4	125.3	−29.8	−1.8	139.4	1,264.6	0.1	1,264.7
Dividend distribution							−70.3	−70.3		−70.3
Retention from 2010 profit available for distribution			69.1				−69.1	0.0		0.0
Addition from net profit for the year							137.3	137.3		137.3
Share-based payments		11.5	−0.5					11.0		11.0
Other changes				−36.8	−8.7	−1.0		−46.5		−46.5
At 31.12.2011*	**75.4**	**363.2**	**673.0**	**88.5**	**−38.5**	**−2.8**	**137.3**	**1,296.1**	**0.1**	**1,296.2**
Dividend distribution							−70.3	−70.3		−70.3
Retention from 2011 profit available for distribution			67.0				−67.0	0.0		0.0
Addition from net profit for the year							133.2	133.2		133.2
Share-based payments		−8.9	−6.1					−15.0		−15.0
Other changes				72.1	−31.1			41.0		41.0
At 31.12.2012	**75.4**	**354.3**	**733.9**	**160.6**	**−69.6**	**−2.8**	**133.2**	**1,385.0**	**0.1**	**1,385.1**

* prior-year figures adjusted. The adjustments are explained in Note 18.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2012	2011*
Net profit	133.2	137.3
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	63.4	67.2
Net profit from the sale of investments and property, plant and equipment	–5.5	–8.0
Other adjustments (net)	–198.4	–100.1
Sub-total	–7.3	96.4
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	782.3	–454.7
Loans and advances to customers	–361.9	–627.6
Securities held for trading	88.4	504.2
Other assets	–787.7	–943.3
Liabilities	–215.8	1,834.5
Other liabilities	72.1	–47.8
Total adjustments	–422.6	265.3
Interest receipts	251.7	236.3
Dividend receipts	2.4	2.2
Interest payments	–78.0	–89.1
Income taxes paid	–69.0	–81.7
Cash flow from operating activities	**–322.8**	**429.5**
Proceeds from the sale of		
Financial investments	0.0	0.7
Property, plant and equipment	1.3	13.8
Payments for the acquisition of		
Financial investments	–0.4	–0.7
Property, plant and equipment	–15.0	–11.9
Cash flow from investing activities	**–14.1**	**1.9**
Dividends paid to HSBC Trinkaus shareholders	–70.3	–70.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	0.0	–25.0
Net cash provided by the capital increase	0.0	0.0
Cash flow from financing activities	**–70.3**	**–95.3**

Cash and cash equivalents at beginning of period	**672.2**	**336.1**
Cash flow from operating activities	–322.8	429.5
Cash flow from investing activities	–14.1	1.9
Cash flow from financing activities	–70.3	–95.3
Cash and cash equivalents at beginning of period	**265.0**	**672.2**

* prior-year figures adjusted. The adjustments are explained in Note 18.

Contents
Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Fundamental accounting policies

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

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2012 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.

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 calculation percentages.

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

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

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

At the end of 2012, HSBC Holdings plc had an indirect interest of 80.6 % (2011: 80.4 %) in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Accounting, valuation and consolidation methods

1 Scope of Consolidation

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

As in the previous year, we have fully consolidated two special funds and one closed-end real estate fund in accordance with SIC-12. A detailed list of the consolidated companies in addition to these funds can be found in Note 63.

Joachim Hecker Grundbesitz KG and sino AG were no longer included within the scope of consolidation during the current financial year. Following the sale of real estate in the previous year, Joachim Hecker Grundbesitz KG was merged with the Bank in the 2012 financial year. Owing to changes emerging in sino AG's regulatory environment and the associated decline of its importance to the Group, sino AG was removed and is henceforth recognised as a financial asset. These changes in the scope of consolidation have no material consequences for the financial position and result of operations.

2 Consolidation Principles

In accordance with IAS 27.24, the accounting policies were applied consistently throughout the Group.

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

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

3 Foreign Currency Translation

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

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

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

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. The equity capital available (subscribed capital, profit, capital, revaluation surplus) at the time of initial consolidation must be converted at the reporting rate (closing 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 € –2.8 million (2011: € –2.8 million) and relate to a closed-end real estate fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63). Translation differences without effect on the income statement include the foreign exchange gain/loss from the conversion of quasi-equity intra-group foreign currency loans that are not expected to be repaid in the foreseeable future (net investment in foreign business units).

4 Business Combinations

IFRS 3 regulates the application of the acquisition method for business combinations in which the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be 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 (such as client contracts) 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 (impairment test) in accordance with IAS 36.

5 Financial Instruments

Recognition

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

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

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

Reporting

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

Measurement approach	Measurement classes (IFRS 7) / Balance sheet item	Measurement category (IAS 39)
Measurement at amortised costs	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
	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		

IFRS 7 redefines the disclosure of financial instruments and groups the reporting rules together in one standard. Furthermore, the standard contains disclosure requirements of risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

Measurement

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

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

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

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

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present-value methods and option-price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters are as differentiated as possible, for example, according to lifetime and strike prices. The choice of data sources used plus the allocation of the measurement parameters and 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. 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. The corresponding loans and receivables are measured at amortised cost. We report interest from the lending business in net interest income. Discounts and premiums are recorded proportionately within interest income. Impairments on loans and receivables are reported in net loan impairment provision.

(d) Financial assets available-for-sale

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

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

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

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, for example, 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 at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below original costs in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the 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 corresponding 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 through profit or loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Discounts and premiums are recognised proportionately within interest expense. Non-interest-bearing liabilities, such as zero-coupon bonds, are measured at their interest rate as at the balance sheet date.

(f) Reclassification

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

(g) Financial guarantees and loan commitments

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

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

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

6 Hedge Accounting

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

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

HSBC Trinkaus uses a linear regression model to assess the effectiveness of the hedge transaction. The model examines the linear correlation between the cumulative changes in value in the underlying transaction and the cumulative changes in value of the hedge transaction. The so-called coefficient of determination (R-square) provides information about the direction of the correlation through the quality of the regression and the steepness of the regression straight 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 hand, proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness). Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between – 0.9 and – 1.1. An R-square of greater than 0.8 and a slope of between – 0.8 and – 1.2 is adequate for the retrospective effectiveness test.

7 Net Loan Impairment and Other Credit Risk Provisions

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

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

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

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

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

8 Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities (cf. Note 35).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item trading assets (cf. Note 24). Securities purchased under agreements to resell are not reported.

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

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows / outflows from collateral pledged for securities lending transactions were reported under the balance sheet item trading assets or trading liabilities (cf. Notes 24 and 35).

9 Share of Profit in Associates

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

10 Property, Plant and Equipment

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

Hardware and other operational and business equipment are valued at amortised cost less regular depreciation. The prospective useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the 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 the amount in which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value of the of the asset less 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.

The scheduled amortisation is based on the following useful life throughout the Group:

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

11 Intangible assets

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

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

12 Leasing

Group companies are involved in the leasing business exclusively as lessees. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. For this reason, the Group treats lease payments as rental payments reported under total administrative expenses (IAS 17).

13 Treasury Bonds and Shares

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

As at the end of 2012, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 43 treasury shares were bought at an average price of € 83.15 (2011: € 89.73) and sold at an average price of € 82.97 (2011: € 90.28). 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 % (2011: 0.02 %) of subscribed capital.

14 Provisions

Provisions for pensions and similar obligations, for credit risks and uncertain liabilities are reported under provisions (IAS 19, 37).

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

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

15 Taxation Recoverable and Taxation

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

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for 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 anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable and deferred taxation will be adjusted accordingly (cf. Note 50).

16 Share-Based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The 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.

In addition, the performance-related remuneration components for employees and the Management Board are, over a defined volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The performance-related components can be paid in full 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; for the first time, staff expenses are not spread over the vesting period in the year under report, but are recognised in full as an expense (cf. Note 18). The resulting transfer obligation is revalued every month, whereby the valuation result is recognised directly in the capital reserves.

17 Reporting of Income and Expenses

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers, and income from financial assets. Interest expense includes expenses arising from liabilities to banks and customers, 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 securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Investment Banking). Fee income and expenses are recognised in the income statement whenever the service is performed.

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

18 Change in Accounting Policies

The accounting methods applied are in line with those applied in the previous year, except with regard to the following:

In its judgement of 18 January 2012, 10 AZR 612/10 (hereinafter referred to as BAG ruling), the German Federal Labour Court (BAG) ruled that a special payment that also represents remuneration for work already performed cannot be made conditional in the German Business Conditions on the ongoing employment relationship at a point in time outside of the reference period of the special payment.

HSBC Trinkaus used the BAG ruling as an opportunity to adjust the accounting practice in relation to those bonus payments (cf. Note 16) payment or transfer of which in subsequent years was previously conditional on the employee remaining with the Group.

Up to the time of this ruling, the amount of the bonus payments in accordance with IFRS 2 was recorded in staff expenses over the vesting period on an accrual basis and was carried and recognised as a liability to the same amount. This obligation was adjusted regularly on the basis of the price performance of the underlying share, whereby the valuation result was recognised in the capital reserves with no effect on income. In this respect, this accounting practice was appropriate until the BAG ruling, as the claim to further payment or transfers expired in the event of early departure by the employee from office.

The BAG ruling established that the employee's claim cannot be made conditional on his/her remaining in the company's employ. Rather, the bonus must still be paid or transferred in full – even at confirmed points in time of subsequent years – to the employee in the event of early departure. The reporting consequences arising from the BAG ruling are that all bonus commitments for the respective financial years are recorded in full in staff expenses for the year in question.

As this constitutes a change in accounting policies in accordance with IAS 8, the change in accounting is not only to be considered in the current financial year. The previous year's figures must be adjusted in this financial report too as if this method had also been applied in the previous year. Effects from financial years prior to the 2011 financial year must be taken into consideration in equity on 1 January 2011.

Owing to these changes, the comparative figures for the 2011 financial year reported in the annual report for 2012 deviate from those that were contained in the annual report for 2011.

The comparative figures were corrected as follows in accordance with IAS 8:

- The difference between the service costs already earned up to 31 December 2010 and the actual bonus commitments for 2010 and earlier were accounted for directly in equity as at 1 January 2011. The difference amounts to € 33.3 million and represents a subsequent charge to staff expenses. Retained earnings of € 10.5 million as at 1 January 2011 were reduced by deferred taxes of € 22.8 million. In addition, capital reserves as at 1 January 2011 were reduced by € 2.3 million due to the remeasurement of the additional vesting interest.

- The difference between the pro rata earned service costs of the bonus commitments for 2011 and earlier and the actual bonus payments in 2011 was recognised in the 2011 income statement. The difference amounts to € 7.5 million and represents a subsequent reduction in administrative expenses and an improvement in pre-tax profit. Taking into account deferred taxes of € 2.3 million, net profit as well as consolidated profit were increased by € 5.2 million as at 31 December 2011. In addition, capital reserves as at 31 December 2011 were increased by € 3.2 million due to the re-measurement of the additional vesting interest.

- In the opening balance sheet as at 1 January 2011, the deferred tax obligation was reduced by € 10.5 million and the transfer obligation increased by € 35.6 million – in addition to the effects on equity outlined above. As at 31 December 2011, the transfer obligation increased by € 22.5 million. In relation to the deferred taxes, the decline of € 8.1 million meant that the deferred tax obligation of € 7.3 million was converted to taxation recoverable of € 0.8 million.

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

in €m	as at 01.01.2011	as at 31.12.11
Taxation recoverable	0.0	+0.8
Taxation	–10.5	–7.3
Other liabilities	+35.6	+22.5
Capital reserve	–2.3	+3.2
Retained earnings	–22.8	–22.8
Consolidated profit available	0.0	+5.2

in €m	2011
Administrative expenses	–7.5
Tax expenses	+2.3

Excluding the retrospective adjustment of the service cost, administrative expenses would have been € 3.7 million higher in 2012 and income tax € 1.2 million lower. If the income statement for 2012 were calculated in this way, as if there were no retrospective adjustment, net profit in the year under report would have been € 2.5 million higher than was published in this annual report.

Pursuant to IAS 8.30, details on the effects of the future application of new standards and interpretations must be given in the IFRS consolidated financial statements. The following new or changed standards are in principle important to our Group but not yet mandatory as at 31 December 2012 and were therefore not yet applied when preparing these consolidated financial statements.

In accordance with the change to the IAS 1 "Presentation of Financial Statements" that is applicable from the 2013 financial year onwards, companies must in future distinguish with regard to items shown in net other income as to whether they are reclassified in the income statement in future (so-called recycling) or not.

In June 2011, the IASB published a revised version of the IAS 39 "Employee Benefits", which must be applied retrospectively as of the 2013 financial year. The corridor method will be abolished and all actuarial gains and losses will be recognised in "Net other income"; past service costs are recognised immediately, and interest expense and expected income from plan assets is calculated as a net amount, taking into consideration the underlying interest rate of the defined benefit plan. We anticipate a charge in the income statement and relief in the actuarial result from using the rate of interest for calculating the pension obligation and for the plan assets of around € 6.0 million. In addition, the disclosure requirements on "Employee benefits" are also extended.

The IASB revised the provisions for offsetting financial assets and liabilities and published the results on 16 December 2011 in the form of changes to the IAS 32, "Financial instruments: presentation", applicable as of the 2014 financial year, and to IFRS 7, "Financial instruments: disclosure". To simplify the comparison between companies that prepare IFSR financial statements and companies whose financial statements were prepared in accordance with US GAAP, the necessary disclosures were greatly extended within the scope of presenting the netting agreements. The changes to disclosures relating to IFRS 7 also provide for offsetting claims that do not lead to netting in accordance to IFRS. The netting details of IFRS 7 must be applied retrospectively and come into affect for financial years that start on or after 1 January 2013.

IFRS 9 "Financial instruments" deals with the disclosure and presentation of financial instruments. The new standard fundamentally changes the previous provisions for the classification and measurement of financial instruments. Assuming it is endorsed by the EU, IFRS 9 is obligatory for financial years that start on or after 1 January 2015. The changes are likely to have a material effect on our accounting.

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

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

IFRS 10 and IFRS 12 (which is explained in the next section) will be applied in the EU for the first time in the 2014 financial year. We assume that the changes, with the exception of the extended disclosure requirements, will not lead to any changes in the accounting practices.

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

IFRS 13 "Fair value measurement" provides a standard, single framework for measuring fair value, where the term is defined and methods used to determine the fair value are presented, amongst other things. In addition, IFRS 13 enhances the necessary disclosure requirements in conjunction with measurement at fair value, the application of which will be mandatory as of the 2013 financial year.

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

19 Material Events Occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2012	31.12.2011
Cash in hand	2.1	3.3
Balances held with central banks	262.9	668.9
Total	265.0	672.2

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

21 Loans and Advances to Banks

in €m	31.12.2012	31.12.2011
Current accounts	400.0	409.9
Money market transactions	544.6	1,230.8
of which overnight money	73.2	76.6
of which term deposits	471.4	1,154.2
Other loans and advances	130.7	216.9
Total	1,075.3	1,857.6
of which to domestic banks	96.8	375.7
of which to foreign banks	978.5	1,481.9

Loans and advances to banks also include our deposits within the HSBC Group. The decline in loans and advances to banks is attributable to the reporting date.

22 Loans and Advances to Customers

in €m	31.12.2012	31.12.2011
Current accounts	1,104.8	1,153.6
Money market transactions	574.8	742.1
of which overnight money	77.0	124.1
of which term deposits	497.8	618.0
Loan accounts	2,374.7	1,803.0
Other loans and advances	24.8	18.5
Total	**4,079.1**	**3,717.2**
of which domestic customers	2,459.9	2,331.2
of which foreign customers	1,619.2	1,386.0

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

23 Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2012	31.12.2011
Net loan impairment provision	25.2	27.1
Provisions for credit risks	4.1	3.2
Net loan impairment and other credit risk provisions	**29.3**	**30.3**

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. We succeeded in reducing the individually assessed impairments, whereas collectively assessed impairments were increased, to reflect, amongst other things, the higher lending volume.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2012	2011	2012	2011	2012	2011
As at 01.01.	**16.6**	**38.2**	**10.5**	**10.9**	**27.1**	**49.1**
Reversals	10.0	12.9	0.0	0.4	10.0	13.3
Utilisation	2.4	11.4	0.0	0.0	2.4	11.4
Additions	8.7	3.0	1.8	0.0	10.5	3.0
Direct write-offs	0.0	0.3	0.0	0.0	0.0	0.3
Currency translation effects / transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	**12.9**	**16.6**	**12.3**	**10.5**	**25.2**	**27.1**

Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2012	2011	2012	2011	2012	2011
As at 01.01.	0.0	2.1	3.2	3.6	3.2	5.7
Reversals	0.0	2.1	0,0	0.4	0.0	2.5
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.9	0.0	0.9	0.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	0.0	0.0	4.1	3.2	4.1	3.2

24 Trading Assets

in €m	31.12.2012	31.12.2011
Bonds and other fixed-income securities	3,853.2	4,312.0
of which:		
public-sector issuers	2,463.7	2,743.3
other issuers	1,389.5	1,568.7
of which:		
listed	3,823.1	4,274.8
unlisted	30.1	37.2
Equities and other non-fixed-income securities	807.9	561.1
of which:		
listed	807.9	561.1
unlisted	0.0	0.0
Tradable receivables	1,770.9	1,892.5
Positive market value of derivatives	1,829.5	2,321.0
of which:		
OTC derivatives	1,595.1	1,949.9
exchange-traded derivatives	234.4	371.1
Reverse repos	113.5	118.5
Securities lending	9.7	0.9
Security in the derivatives business	827.9	644.2
Derivatives held in the banking book	0.0	2.1
Total	9,212.6	9,852.3

The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives in the liabilities held for trading (cf. Note 35).

Tradable receivables are recognised mainly as promissory note loans and registered bonds. The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

25 Financial Assets

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

in €m	31.12.2012	31.12.2011
Bonds and other fixed-income securities	4,612.9	3,768.9
of which:		
public-sector issuers	2,072.6	1,389.2
other issuers	2,540.3	2,379.7
of which:		
listed	4,551.9	3,712.3
unlisted	61.0	56.6
Equities	38.9	40.2
Investment certificates	80.2	73.9
Promissory note loans	235.6	180.9
Investments	100.7	100.8
Total	5,068.3	4,164.7

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

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

in €m	31.12.2012	31.12.2011
Bonds and other fixed-income securities	134.5	54.9
Equities	8.2	3.0
Investment certificates	9.6	3.6
Promissory note loans	27.9	23.2
Investments	31.8	29.0
Total	212.0	113.7

26 Share of Profit in Associates

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

in €m	2012	2011
Book value as at 01.01.	65.2	38.0
Additions	0.0	26.9
Share of results of financial year	0.4	0.7
Impairments	–8.5	0.0
Dividend distribution	–0.7	–0.4
Disposals	–1.3	0.0
Book value as at 31.12.	55.1	65.2

HSBC Global Asset Management (Switzerland) AG, Zurich, which was 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, are taken into consideration here.

We no longer consolidated sino AG, Düsseldorf at equity in the year under report.

All in all, the assets and liabilities of the companies consolidated at equity amount to € 552.5 million (2011: € 555.7 million) and € 0.5 million (2011: € 2.4 million) respectively on pre-tax profit of € 7.8 million (2011: € 9.7 million).

27 Investment Overview

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

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2011	92.0	75.4	167.4	104.1
Increases	0.4	14.7	15.1	34
Disposals	12.7	6.7	19.4	0.5
Acquisition costs as at 31.12.2011	79.7	83.4	163.1	107.0
Depreciation as at 01.01.2011	36.9	47.4	84.3	65.2
Scheduled depreciation	1.1	9.2	10.3	10.8
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	5.4	5.4	10.8	0.3
Depreciation as at 31.12.2011	32.6	51.2	83.8	75.7
Carrying amount as at 31.12.2011	**47.1**	**32.2**	**79.3**	**31.3**
Carrying amount as at 31.12.2010	**55.1**	**28.0**	**83.1**	**38.9**

Intangible assets include goodwill of € 4.4 million (2011: € 4.4 million). As in the previous year, foreign currency translation did not affect property, plant and equipment values.

28 Taxation Recoverable

in €m	31.12.2012	31.12.2011*
Current taxation recoverable	1.2	8.6
Deferred taxation recoverable	0.0	0.8
Total	1.2	9.4

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

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

29 Other Assets

Other assets of € 212.1 million (2011: € 213.1 million) include one building with a book value totalling € 147.5 million (2011: € 166.2 million). The decline is due to the amortisation of the property in the consolidated closed-end real estate fund. Amortisation was on the basis of a valuation carried out by an external appraiser. As in the previous year, no interest on borrowing was activated in the current year. Additionally, this item predominately includes excess cover from our CTAs of € 1.6 million (2011: € 1.0 million) and other taxes of € 1.1 million (2011: € 0.9 million).

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2012	31.12.2011
Bonds and other fixed-income securities	162.3	135.0
Profit-participation certificates	7.4	7.8
Total	169.7	142.8

31 Repurchase Agreements and Securities Lending

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

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

in €m	31.12.2012		31.12.2011	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	44.0	2.1	24.6	9.0
Total	44.0	2.1	24.6	9.0

The following table provides an overview of the securities received:

in €m	31.12.2012		31.12.2011	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	127.9	113.5	131.8	118.5
of which may be sold or pledged	127.9	0.0	131.8	0.0
of which are already sold or pledged	0.0	0.0	0.0	0.0
Securities lending transactions	86.9	9.7	112.4	0.9
of which may be sold or pledged	50.6	0.0	87.5	0.0
of which are already sold or pledged	36.3	0.0	24.9	0.0
Total	214.8	123.2	244.2	119.4

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

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

32 Deposits by Banks

in €m	31.12.2012	31.12.2011
Current accounts	561.5	598.8
Money market transactions	402.4	66.2
of which overnight money	22.9	0.0
of which term deposits	379.5	66.2
Other liabilities	88.8	84.6
Total	**1,052.7**	**749.6**
of which domestic banks	297.1	200.3
of which foreign banks	755.6	549.3

As at 31 December 2012, deposits by banks secured by charges on real property amounted to € 72.2 million (2011: € 72.9 million). The increase in deposits by banks is attributable to the reporting date and relates mainly to money market transactions with other units of the HSBC Group.

33 Customer Accounts

in €m	31.12.2012	31.12.2011
Current accounts	8,163.3	7,671.7
Money market transactions	3,394.9	4,385.1
of which overnight money	750.0	817.2
of which term deposits	2,644.9	3,567.9
Savings deposits	53.6	40.8
Other liabilities	282.7	315.7
Total	**11,894.5**	**12,413.3**
of which domestic customers	8,898.8	9,152.3
of which foreign customers	2,995.7	3,261.0

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

34 Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10 million (2011: € 10 million).

35 Trading Liabilities

in €m	31.12.2012	31.12.2011
Negative market value of derivatives	2,408.3	2,769.4
Discount certificates, promissory note loans, bonds and warrants	2,195.2	2,425.1
Delivery obligations arising from securities sold short	41.5	73.1
Securities lending	2.1	9.0
Security in the derivatives business	150.6	107.4
Derivatives held in the banking book	6.5	2.5
Derivatives in hedging relationships	70.4	39.5
Total	4,874.6	5,426.0

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

The securities lending and collateral items in the derivatives trading business include funds that we have received as collateral.

36 Provisions

in €m	As at 01.01.2012	Utilisation	Reversals	Additions / compounding	Transfers	Actuarial result	As at 31.12.2012
Provisions for pensions and similar obligations	16.9	8.2	0.0	7.4	–33.1	45.3	28.3
Provisions related to human resources	0.1	0.1	0.0	0.1	0.0	0.0	0.1
Provisions for credit risks	3.2	0.0	0.0	0.9	0.0	0.0	4.1
Provisions for other taxes	2.7	0.0	0.1	0.0	0.0	0.0	2.6
Other provisions	80.5	13.4	27.3	64.8	–2.8	0.0	101.8
Provisions	103.4	21.7	27.4	73.2	–35.9	45.3	136.9

The Transfers column includes additions of € 33.7 million to plan assets as well as transfer of the overcollateralisation of the plan assets of € 0.6 million to other assets (cf. Note 29).

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

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

Other provisions include above all provisions for contingent liabilities from IT agreements and goodwill provisions.

Provisions for pensions and similar obligations

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

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

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6.0 % and 7.5 % interest, respectively.

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 5.2 million in the year under report (2011: € 5.2 million).

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

in %	31.12.2012	31.12.2011
Long-term base rate of interest	3.4	5.0
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	6.0	6.0

The base interest rate is calculated on the basis of the average yield on long-term and first-class bonds. It fell to 3.39 % (2011: 5.0 %) during the year under report as a result of falling interest rates on fixed-rate bonds. 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 criteria remained unchanged in the year under report. However, some bonds, especially from Spanish banks, could no longer be taken into account, since they were no longer rated at least AA. Besides the general decline in the interest-rate environment during the year under report, this also explains the particularly sharp reduction in interest rates within a one-year period.

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates were maintained for 2012.

Owing to the mandatory changes to be applied within the scope of reporting pension provisions as of the 2013 financial year (cf. Note 18), the expected interest income from the plan assets is calculated taking into consideration the underlying interest rate of the defined benefit plan. The reduction in the return on plan assets, from 6.0 % to 3.39 %, will increase staff expenses in 2013 on the one hand and improve the actuarial results by around € 6.0 million on the other.

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments. In addition, this item includes the obligations arising from the lifetime working account model.

Development of pension obligations

in €m	2012	2011
Pension obligations as at 01.01.	212.8	206.0
Service costs	9.8	6.5
Interest expense	10.0	10.2
Pensions paid	–11.3	–9.7
Transfers and others	4.8	3.1
Change in actuarial gains and losses	52.0	–3.3
Pension obligations as at 31.12.	278.1	212.8

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

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. A decrease in the long-term base interest rate to 2.89 % would increase the pension obligations to € 300.1 million. On the other hand, if the long-term base interest rate were to increase to 3.89 %, pension obligations would fall to € 258.8 million.

Breakdown of pension obligations

in €m	2012	2011	2010	2009	2008
Non-funded pension obligations	14.8	10.5	9.9	8.1	6.7
Funded pension obligations					
Present value of pension obligations	263.3	202.3	196.1	182.7	173.3
Fair value of plan assets	251.4	196.9	203.8	197.4	185.3
Balance	11.9	5.4	–7.7	–14.7	–12.0
of which plan shortfall	13.5	6.4	2.8	4.0	4.5
of which plan excess	1.6	1.0	10.5	18.7	16.5
Total pension obligations	28.3	16.9	12.8	12.1	11.2
of which actuarial gains and losses					
from plan assets (before taxes)	–26.1	–32.8	–16.8	–16.6	–24.4
from plan obligations (before taxes)	–75.6	–23.6	–26.9	–17.6	–11.4

The change in the plan excess is shown in the provisions in the transfers column.

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 69.6 million after taxes (2011: € 38.5 million). The actuarial losses in the year under report were created on the obligations side and are attributable to falling interest rates.

Development of the fair value of plan assets

in €m	2012	2011
Fair value of plan assets as of 01.01.	196.9	203.8
Additions/withdrawals	36.0	–2.8
Reversals	0.0	0.0
Estimated income from plan assets	11.8	11.9
Change in actuarial gains and losses	6.7	–16.0
Fair value of plan assets as at 31.12.	251.4	196.9

The "Additions" item includes the addition of assets from the lifetime working account model on the one hand and the purchase of investment fund units on the other.

The actual loss from plan assets in the year under report amounted to € 18.5 million (2011: € 4.1 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial result by € 0.5 million. An increase in the planned return to 6.25 % would reduce the actuarial result by € 0.5 million.

Breakdown of the fair value of plan assets

in €m	2012	2011
Bonds and other fixed-income securities	86.0	62.1
Equities	17.5	19.5
Discount/index certificates	53.4	34.8
Re-insurance claims from life insurance	17.8	17.0
Investment funds	43.1	23.2
Closed-end real estate funds	4.0	4.0
Other	29.6	36.3
Fair value of plan assets as of 31.12.	251.4	196.9

37 Taxation

in €m	31.12.2012	31.12.2011*
Current taxation	53.4	48.3
Deferred taxation	12.3	0.0
Total	**65.7**	**48.3**

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

Current income tax liabilities include provisions for income taxes that are likely to be paid on the basis of the tax accounts of the fully-consolidated Group companies, less previous tax prepayments; 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 50).

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

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

in €m	31.12.2012	31.12.2011*	Change
	As shown in the balance sheet	**As shown in the balance sheet**	
Trading portfolio**	5.2	6.3	–1.1
Share-based payments	4.1	1.6	2.5
Intangible assets	2.2	2.2	0.0
Loss carried forward	0.0	0.0	0.0
Derivatives held in the banking book	0.0	0.0	0.0
Buildings	–0.1	–0.1	0.0
Net loan impairment provision	–2.0	–1.8	–0.2
Pensions	–1.0	–0.7	–0.3
Financial assets	–2.0	–2.0	0.0
Provisions	–12.1	–12.3	0.2
Recognised in the income statement	**–5.7**	**–6.8**	**1.1**
Financial instruments	51.4	25.2	26.2
Foreign currency translation	–1.3	–1.3	0.0
Pensions	–32.1	–17.9	–14.2
Without effect on income	**18.1**	**6.0**	**12.1**
Deferred taxes	**12.4**	**–0.8**	**13.2**
of which taxation recoverable	0.0	0.8	–0.8
of which taxation	12.4	0.0	12.4

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

38 Other Liabilities

in €m	31.12.2012	31.12.2011*
Liabilities from other taxes	15.3	18.7
Deferred income	14.6	9.6
Accrued interest on		
subordinated liabilities	6.8	6.8
Participatory capital	4.9	4.9
Other	233.3	195.0
Total	**274.9**	**235.0**

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

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

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

39 Subordinated Capital

in €m	31.12.2012	31.12.2011
Subordinated liabilities (promissory note loans, bonds)	253.4	253.4
Participatory capital	100.0	100.0
Total	**353.4**	**353.4**

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

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

Subordinated capital of € 320.3 million (2011: € 348.8 million) – before discounts and market support deductions – is referred to for the calculation of liable equity according to section 10 (5a) of the German Banking Act (KWG).

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

Interest and repayment of subordinated liabilities

Interest rates	Nominal amount (€m) 31.12.2012	Nominal amount (€m) 31.12.2011
5 % or lower	100.2	100.2
Over 5 % up to 8 %	153.2	153.2
Fixed rates	253.4	253.4
Variable rates	0.0	0.0
Total	**253.4**	**253.4**

Repayment	Nominal amount (€m) 31.12.2012	Nominal amount (€m) 31.12.2011
Up to 1 year	7.7	0.0
Over 1 year up to 5 years	97.7	75.4
Over 5 years	148.0	178.0
Total	**253.4**	**253.4**

40 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG subscribed capital as at 31 December 2012 amounted to € 75.4 million (2011: € 75.4 million) and is divided into 28,107,693 no-par value shares. This is unchanged from the previous year.

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

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

Valuation reserve for financial instruments

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

in €m	2012	2011
Net valuation reserve as at 01.01.	**88.5**	**125.3**
Disposals/additions (gross)	35.1	–34.7
Market fluctuations (gross)	63.2	–21.0
Impairments (gross)	0.0	12.0
Deferred taxes	–26.2	6.9
Net valuation reserve as at 31.12.	**160.6**	**88.5**

Regulatory capital

Since 2008, HSBC Trinkaus calculates the regulatory indicators in accordance with the draft German Banking Act (KWG) and the Solvency Ordinance as implemented on a national level by Basel II. Since 31 December 2011, the changed capital requirements for risks in the trading book and securitisation position are also taken into consideration in accordance with Capital Requirements Directive 3 (CRD3) when calculating the regulatory indicators.

According to Basel II, a bank's regulatory capital is divided into three tiers – core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily subscribed capital plus the capital reserves and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominantly of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks, and to cover them with eligible capital. Market risks result from the interest-rate and share-price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be covered only by core and supplementary capital, while market risk can also be covered by Tier III capital.

The minimum mandatory total capital ratio according to Basel II rules is 8 %. At the same time, at least 4 % of the risk-weighted assets must be backed by core capital (core capital ratio). The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis.

The core capital of HSBC Trinkaus & Burkhardt Group consists exclusively of share capital plus capital reserves and retained earnings, and therefore already meets the future regulatory requirements of hard core capital. Our above-average capital resources enable us continue along the planned growth strategy within the scope of our successful business model.

The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2012	2011
Core capital		
Consolidated core capital as disclosed on the balance sheet	1,213	1,128
Intangible assets	–20	–28
Total core capital	**1,193**	**1,100**
Supplementary capital (Tier III)		
Subordinated liabilities	218	247
Participatory capital	99	100
Unrealised gains on listed securities	57	32
Consolidation/equal deduction	–32	–40
Total supplementary capital	**342**	**339**
Adjustment items	0	0
Regulatory capital excluding Tier III capital	**1,535**	**1,439**
Available Tier III capital	**0**	**0**
Total regulatory capital	**1,535**	**1,439**
Risk-weighted assets	6,975	7,112
Market risk equivalent	1,025	1,188
Operational risk	1,238	1,300
Risk position	**9,238**	**9,600**
Tier I ratio* in %	**12.9**	**11.5**
Capital ratio in %	**16.6**	**15.0**

* before taking half the adjustment item into account

The G20 states responded to the global financial crisis by adopting extensive capital and liquidity requirements to reform the financial market regulator, with the objective of making the global financial system more resilient as a whole. Within the scope of this report, the Basel Commission on Banking Supervision, on behalf of the G20 states, agreed on new and extended provisions: Basel III. Although the transformation into European law is still in draft form as an EU guideline or directive (CRD 4 and CRR), so agreement could be reached to data at EU level, publication by the EU of the final version, and hence the application of the new rules.

The drafts are focused on improving the loss-bearing capacity of shareholders' equity, above all enhancing the liability quality and the quantity of equity. In future, the result of the revised definition of the capital concept is that banks should hold, in particular, equity instruments that participate in current losses. These comprise largely the subscribed capital and disclosed reserves. The importance of equity instruments on the other hand that are only available in the event of liquidation, such as subordinated capital, will fall.

The capital ratio requirements will also be increased. Although the total capital ratio is unchanged at 8 %, the criteria regarding its composition will be significantly stricter. After a transition period, credit institutions must hold 6 % instead of 4 % core capital. The minimum ratio for hard core capital will be 4.5 %. In order to meet the minimum capital requirements of 8 %, banks may use up to 2 % Tier II capital. Tier III capital is not recognised. In addition, banks have to gradually build up a capital conservation buffer of 2.5 %, comprising only hard core capital. Including this buffer, a total of 7 % hard core capital is therefore necessary.

The availability of adequate shareholders' equity is fundamental to the management of the Bank. On the one hand, it must be guaranteed that the current minimum capital requirements and the planned capital ratios are maintained, taking into account the new requirements. On the other hand, it must be guaranteed that the risks inherent in the banking business are adequately covered, securing its operational capacity to act at any time.

At 16.6 %, the Bank's capital ratio remains high, with 12.9 percentage points accounted for by hard core capital. We exceed the regulatory requirements set out by Basel II considerably in order to be equipped for organic growth on the one hand while creating scope for appropriate strategic acquisitions on the other. Even taking into consideration the changes expected under Basel III, this high capital base means that HSBC Trinkaus already fulfils the minimum capital ratios that will apply in the future. All in all, we want to continue to maintain a minimum total capital ratio of 10.5 % on the basis of the regulations that still apply.

An analysis of the economic capital requirement (Internal Capital Adequacy Assessment Process, ICAAP) complements our management of shareholders' equity, which is focused on the regulatory requirements. The primary objective of our analysis of economic capital is to identify all material risks in our business, relative to the available risk cover. The comparison takes place within the scope of different scenarios, including stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees in the risk categories and the statistical databases feature different qualities, so that an aggregation of all risks is not quite without its problems. We continue to adjust the calculation of economic capital requirements to meet the growing challenges we face. Ultimately, the Bank's risk-bearing capacity is unchanged and its capitalisation adequate.

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

41 Minority Interests

As in the previous year, minority interests comprise investments in one closed-end real estate fund that is fully-consolidated in the consolidated financial statements.

Notes to the Consolidated Income Statement

42 Net Interest Income

in €m	2012	2011
Interest income	**253.7**	**238.0**
From loans and advances to banks	24.2	26.1
Money market transactions	20.7	20.7
Other interest-bearing receivables	3.5	4.4
Reverse repos	0.0	1.0
From loans and advances to customers	101.0	92.4
Money market transactions	12.3	16.9
Other interest-bearing receivables	88.7	75.5
From financial assets	128.5	119.5
Interest income	125.2	116.3
Dividend income	2.0	1.7
Income from subsidiaries	1.3	1.5
Interest expense	**78.0**	**89.1**
From deposits by banks	18.1	21.2
Money market transactions	5.0	12.6
Other interest-bearing deposits	13.1	8.6
From customers accounts	27.9	46.1
Money market transactions	10.4*	15.4*
Other interest-bearing deposits	17.5	30.7
From certificated liabilities	0.4	0.4
From subordinated capital	17.5	17.5
Other	14.1*	3.9*
Net interest income	**175.7**	**148.9**

* The effect of transferring the Global Markets refinancing result from net interest income to net trading income was reclassified within interest expenses from the line "From customer accounts/money market transactions" into the line "Other". The previous year's figures were adjusted accordingly.

We achieved positive net interest income of € 175.7 million during the year under report, thus exceeding the figure achieved in the previous year by € 26.8 million or 18.0 %. This figures reflects above all our successful growth strategy in the corporate customer business, which significantly increased our lending volume. On the other hand, net interest income from the lending business was considerable lower, above all due to falling margins.

Net interest income from financial assets increased significantly as we had further expanded our liquidity buffer.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 0.9 million (2011: € 1.7 million).

43 Net Loan Impairment and Other Credit Risk Provisions

in €m	2012	2011
Additions	11.4	3.0
Reversals	10.0	15.8
Direct write-offs	0.0	0.3
Recoveries on loans and advances previously written off	0.5	0.2
Total	0.9	–12.7

Following the net reversals of net loan impairment provision in 2011, the expense arising from net loan impairment and other credit risk provisions amounted to € 0.9 million in the financial year. Individually-assessed impairment featured net reversals of € 1.3 million, which were offset by an increase of € 2.7 million in the portfolio impairment allowance. The higher portfolio impairment allowance is due to the higher lending volume on the one hand and to the general downturn in economic development on the other.

Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks.

44 Share of Profit in Associates

The share of profit in associates of € –8.1 million (2011: € 0.7 million) resulted mainly from the write-down on an interest held (cf. Notes 1, 26, 63).

45 Net Fee income

in €m	2012	2011
Securities transactions	236.5	245.3
Foreign exchange transactions and derivatives	79.4	67.6
Issuing and structuring business	14.5	8.0
Lending	14.3	12.5
Payments*	11.7	12.2
International business*	9.7	9.2
Investment banking	7.4	18.2
Alternative investments	3.4	5.3
Other fee-based business	6.8	7.2
Total	383.7	385.5

* According to the management reporting, we reclassified the result from international payments in the financial year, from international business to payments. The previous year's figures were adjusted accordingly.

The fee-based business, which accounted for a 54.4 % share of operating profit (2011: 57.7 %), remains a crucial factor to HSBC Trinkaus' success. At € 383.7 million (2011: €385.5 million), net fee income for the year under report is only slightly lower than the previous year.

The decline in commission from the securities business and Investment Banking is largely due to the cautious stance adopted by our customers owing to the uncertainties on the capital markets. On the other hand, the debt capital market business reached a new record. Despite the decline in the number of transactions concluded in the securities business, we once again posted a significant increase in volume and income in our subsidiary HSBC INKA.

We achieved an increase in the result in our lending business with corporate customers within the scope of our growth initiative. We must emphasise the particularly positive development in net fee income generated from the intermediation of our customers' foreign exchange and derivatives business to others in HSBC Group.

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

46 Net Trading Income

in €m	2012	2011
Equities and equity/index derivatives	77.2	65.4
Bonds and interest rate derivates	74.3	45.6
Foreign exchange	11.3	10.1
Derivatives held in the banking book	–1.0	–4.3
Total	**161.8**	**116.8**

At € 161.8 million, net trading income is significantly higher than last year's result (2011: € 116.8 million).

It must be taken into account that the result in trading in equities and equity/index derivatives is influenced by a non-recurring effect of subsequent increased compensation in the course of a business combination. The adjusted result in trading in equities and equity/index derivatives is considerably weaker than the previous year's result. This development is due to the significant decline in customer demand for retail products, especially for trading-oriented certificates.

We significantly increased the results achieved on trading bonds and interest rate derivatives, from € 45.6 million the year before to € 74.3 million, despite the strong credit spread volatility. On the other hand, our treasury services once again benefited strongly from our excellent liquidity situation.

At € 11.3 million, the result from the foreign exchange business is considerably higher than last year's figure of € 10.1 million.

We succeeded in reducing the losses incurred on derivatives held in the banking book, from € 4.3 million to € 1.0 million.

As we see it, the significant improvement overall in net trading income is convincing evidence of our prudent trading activities that take into consideration the risks involved.

47 Administrative Expenses

in €m	2012	2011*
Staff expenses	317.9	278.9
Wages and salaries	276.1	240.1
Social security costs	27.3	28.4
Expenses for retirement pensions and other employee benefits	14.5	10.4
Other administrative expenses	153.0	166.8
Depreciation of property, plant and equipment and of intangible assets	22.3	21.1
Total	**493.2**	**466.8**

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

Administrative expenses climbed in the year under report, by € 26.4 million or 5.7 %, to € 493.2 million (2011: € 466.8 million). This development is attributable above all to non-recurring effects in staff expenses in conjunction with the HSBC Group initiative to increase operational efficiencies. In addition, performance-related remuneration increased in line with the rise in pre-tax profit.

The various measures we have taken to limit costs are already clearly evident in the development of other administrative expenses. We succeeded in reducing these by € 13.8 million year-on-year to € 153.0 million, despite the gradual rise in costs as a result of greater regulation.

Other administrative expenses include € 34.1 million (2011: € 32.2 million) in expenses arising from rental and lease payments.

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

in €m	2012	2011
Expenses for defined benefit plans	8.0	4.7
of which current service costs	9.8	6.5
of which interest expense	10.0	10.2
of which estimated income from the plan assets	–11.8	–12.0
Expenses for defined contribution plans	5.2	5.2
Other expenses for retirement provisions	1.3	0.5
Total	**14.5**	**10.4**

48 Income from Financial Assets

A profit of € 9.1 million from financial assets was reported in the year under report compared with a loss of € 4.8 million the year before. This positive development was largely owing to disposals of € 5.7 million (2011: € 2.1 million) and € 6.1 million (2011: € 4.6 million) respectively from the transfer of HSBC shares in conjunction with share-based payment plans. On balance, impairments on real estate investments and reversals on securities resulted in expenses of € 2.7 million (2011: € 12.0 million).

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

in €m	2012	2011
Income statement		
Net gain/loss from disposal	11.8	6.7
Tax expenses	– 1.9	0.2
Net realisation gain in the income statement	**9.9**	**6.9**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	– 11.8	– 6.7
of which volatility in the year under report	– 8.5	0.5
of which volatility in previous years	– 3.3	– 7.2
Performance of corresponding tax expenses		
Change from disposals (derecognition)	1.9	– 0.2
of which volatility in the year under report	0.9	– 1.2
of which volatility in previous years	1.0	1.0

The following table shows how the impairments or write-ups on financial assets are attributable to the performance of previous years and of the year of impairment/write-back:

in €m	2012	2011
Income statement		
Impairments/write-ups on financial instruments	– 2.7	– 12.0
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	2.7	12.0
of which volatility in the year under report	2.7	12.3
of which volatility in previous years	0.0	– 0.3
Performance of corresponding tax expenses		
Changes from impairments/write-ups	– 0.9	– 1.5
of which volatility in the year under report	– 0.9	– 1.6
of which volatility in previous years	0.0	0.1

49 Net Other Income

in €m	2012	2011
Other operating income	61.4	57.7
Other operating expenses	70.1	45.5
Other operating income	**–8.7**	**12.2**
Other income	0.5	5.6
Other expenses	0.2	0.2
Other net income	**0.3**	**5.4**
Net other income	**–8.4**	**17.6**

Other operating income and expenses are essentially due to changes in market values of financial instruments in hedging relationships. In the case of effective hedging relationships, considerable price increases on hedged underlying transactions are offset against the substantial discounts on the valuation of the hedging instruments. On balance, the hedge result of € –0.1 million in the year under report is virtually unchanged from the previous year's figure of € 0.1 million (cf. Notes 6 and 59).

Other operating income of € –8.7 million (2011: € 12.2 million) includes mainly rental income that was generated above all from our real estate project in Australia. In contrast, considerable expenses arose from the creation of provisions for onerous contracts and pending litigation. Other income amounts to € 0.3 million and is down € 5.1 million on the previous year. This is due to the profit of € 5.2 million from the disposal of a property that was included in the previous year's result.

50 Tax Expenses

in €m	2012	2011*
Current taxes	85.4	63.6
of which off-period	0.2	2.3
Deferred taxes from change in limited valuation differences	1.1	9.7
Deferred taxes from changes to the tax rates	0.0	0.0
Total	86.5	73.3

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

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

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

in €m	2012	2011*
Pre-tax profit	219.7	210.6
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	69.0	66.1
Tax rate differential on income proportions subject to taxation outside of Germany	−0.3	−0.5
Effect from unused losses carried forward	0.0	0.0
Taxes for previous years	0.2	2.3
Non-deductible expenses from share-based payments	0.0	2.2
Corporation tax modification	9.7	−6.5
Trade tax modification	0.9	7.8
Miscellaneous	7.0	1.9
Reported taxation	86.5	73.3

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

The losses incurred in the consolidated closed-end real estate fund could not be used for tax purposes, since it was unlikely that taxable income would be generated in the future that could be offset against tax-deductible losses.

51 Calculation of Operating Profit

in €m	2012	2011*	Change in €m	Change in %
Interest income	253.7	238.0	15.7	6.6
Interest expense	78.0	89.1	–11.1	–12.5
Net Interest Income	175.7	148.9	26.8	18.0
Net loan impairment and other credit risk provisions	0.9	–12.7	13.6	>100.0
Net interest income after net loan impairment provision	174.8	161.6	13.2	8.2
Share of profit in associates	–8.1	0.7	-8.8	>100.0
Fee income	712.1	681.5	30.6	4.5
Fee expenses	328.4	296.0	32.4	10.9
Net fee income	383.7	385.5	–1.8	–0.5
Operating trading income	162.8	121.1	41.7	34.4
Staff expenses	317.8	279.0	38.9	13.9
Other administrative expenses	175.4	187.8	–12.4	–6.6
Administrative expenses	493.2	466.8	26.5	5.7
Other operating income/expenses	–8.7	12.2	–20.9	>100.0
Operating profit	**211.3**	**214.3**	**–3.0**	**–1.4**
Income from financial assets	9.1	–4.8	13.9	>100.0
Results from derivatives in the banking book	–1.0	–4.3	3.3	76.7
Other net income	0.3	5.4	–5.1	–94.4
Pre-tax profit	**219.7**	**210.6**	**9.1**	**4.3**
Tax expenses	86.5	73.3	13.2	18.0
Net profit	**133.2**	**137.3**	**–4.1**	**–3.0**

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

Operating profit includes the operating profit and operating expenses posted under 'Net other income' (cf. Note 49). Operating trading income comprises net trading income from our trading desks but does not include results from derivatives held in the banking book. A breakdown of operating profit by business segment is shown in Segment Reporting (Note 54).

52 Income Statement by Measurement Category

The following overview includes net profit or net loss for every IAS 39 measurement category of financial assets 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 hand, interest income/expenses and commission income and expenses are included in every measurement category.

Measurement category 31.12.2012 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	120.0	5.2			128.5			253.7
Interest expense						–77.8	–0.2	–78.0
Net fee income								
Fee income	15.1		2.6				694.4	712.1
Fee expenses	–0.8		–4.3				–323.3	–328.4
Net trading income			161.8					161.8
Income from financial assets					11.8			11.8
Net other income/expenses				–28.1	28.0		–8.3	–8.4
Impairments								
Net impairment and other credit risk provisions							–0.9	–0.9
Income from financial assets					–2.7			–2.7
Total	134.3	5.2	160.1	–28.1	165.6	–77.8	361.7	721.0

Measurement category 31.12.2011 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	114.5	4.0			119.5			238.0
Interest expense						–89.0	–0.1	–89.1
Net fee income								
Fee income	12.7		1.3				667.6	681.6
Fee expenses	–0.2		–3.5				–292.3	–296.0
Net trading income			116.8					116.8
Income from financial assets					7.2			7.2
Net other income				–28.3	28.4		17.6	17.7
Impairments								
Net impairment and other credit risk provisions	10.2						2.5	12.7
Income from financial assets					–12.0			–12.0
Total	137.2	4.0	114.6	–28.3	143.1	–89.0	395.3	676.9

Other Notes

53 Notes to the Cash Flow Statement

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, operating trading income and the balance of other operating income and expenses, minus administrative expenses and net loan impairment provision.

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

Cash and cash equivalents
As in the previous year, the cash and cash equivalents of € 265.0 million (2011: € 672.2 million) correspond to the cash reserve balance sheet item, which comprise 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 € 133.2 million (2011: € 137.3 million) is the input figure for the cash flow statement. Gross cash flow of € – 7.3 million (2011: € 96.4 million), which is reported as a sub-total, shows the cash surplus from operating activities, before any capital commitment. The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash flow from investing activities
Spending on the acquisition of property, plant and equipment totalled € 15.0 million (2011: € 11.9 million). The sale of property, plant and equipment realised € 1.3 million (2011: € 13.8 million) for the Group. The sale of a property in Germany accounted for a significant share in the previous year. In the 2012 financial year, the sale and purchase of financial investments resulted in an outgoing payment of € 0.4 million net.

Cash flow from financing activities
Cash flow from financing activities includes the dividend of € 70.3 million for the 2011 financial year (2011: € 70.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in no changes this year (2011: € 25.0 million).

54 Customer Groups

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions, and should help them gain a more differentiated picture of the economic performance of the Group.

The segment reporting of the HSBC Trinkaus Group is based on contribution to profits as a key component of the Management Information System (MIS). The MIS serves as one of the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus Group on a divisional basis.

Hence, the segment reporting covers the following business areas, which are essentially structured to meet the needs of our clients:

Private Banking
The Private Banking business division offers the clients of HSBC Trinkaus extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills, real estate advisory services as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

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

Institutional Clients
In the Institutional Clients division HSBC Trinkaus offers its institutional clients, namely fund-gathering institutions with major investment needs such as insurance companies, pension and investment funds and also banks, the full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

Global Markets
The Global Markets division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus undertakes on its own account and in its own name. Through its trading activities, therefore, the bank itself participates in the market and also acts as a market-maker.

Central Divisions
In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions / Consolidation includes earnings contributions from selected strategic asset and liability items that cannot be directly attributed to one particular division, as well as the results of asset liability management. As in the previous year, this segment also includes the earnings contributions from securities processing for financial services providers.

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

Segment reporting by business division for 2012 and 2011* is as follows:

in €m		Private Banking	Corporate Banking	Institu-tional Clients	Global Markets	Central Divisions	Economic Group result	Consoli-dation/ Recon-ciliation	Total
Net interest income	2012	9.3	70.1	3.6	5.3	87.4	175.7	0.0	175.7
	2011	10.4	59.8	3.1	5.5	70.1	148.9	0.0	148.9
Net loan impairment provision	2012	0.6	12.0	1.6	0.0	0.5	14.7	–13.8	0.9
	2011	0.7	8.3	1.1	0.2	0.5	10.8	–23.5	–12.7
Net interest income after net loan impair-ment provision	2012	8.7	58.1	2.0	5.3	86.9	161.0	13.8	174.8
	2011	9.7	51.5	2.0	5.3	69.6	138.1	23.5	161.6
Share of profit in associates	2012	0.0	0.0	0.0	0.0	–8.1	–8.1	0.0	–8.1
	2011	0.0	0.0	0.0	0.0	0.7	0.7	0.0	0.7
Net fee income	2012	90.6	112.5	175.9	–0.4	5.1	383.7	0.0	383.7
	2011	94.5	108.4	165.1	1.1	16.4	385.5	0.0	385.5
Operating trading income	2012	0.0	–0.2	9.2	131.6	22.2	162.8	0.0	162.8
	2011	0.0	–0.2	5.7	92.2	23.4	121.1	0.0	121.1
Income after net loan impairment provision	2012	99.3	170.4	187.1	136.5	106.1	699.4	13.8	713.2
	2011	104.2	159.7	172.8	98.6	110.1	645.4	23.5	668.9
Administrative expenses	2012	71.6	101.6	119.6	54.5	145.9	493.2	0.0	493.2
	2011	73.9	96.6	112.9	50.6	132.8	466.8	0.0	466.8
Of which deprecia-tion and amortisation	2012	1.7	1.6	0.9	0.9	17.2	22.3	0.0	22.3
	2011	1.7	1.3	0.7	0.6	16.8	21.1	0.0	21.1
Other operating income	2012	–0.2	0.0	0.0	0.0	–8.5	–8.7	0.0	–8.7
	2011	0.0	0.0	0.0	0.0	12.2	12.2	0.0	12.2
Operating profit	**2012**	**27.5**	**68.8**	**67.5**	**82.0**	**–48.3**	**197.5**	**13.8**	**211.3**
	2011	**30.3**	**63.1**	**59.9**	**48.0**	**–10.5**	**190.8**	**23.5**	**214.3**
Income from financial assets	2012	0.0	0.0	0.0	0.0	9.1	9.1	0.0	9.1
	2011	0.0	0.0	0.0	0.0	–4.8	–4.8	0.0	–4.8
Income from derivatives in the banking book	2012	0.0	0.0	0.0	0.0	–1.0	–1.0	0.0	–1.0
	2011	0.0	0.0	0.0	0.0	–4.3	–4.3	0.0	–4.3
Other net income	2012	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.3
	2011	0.0	0.0	0.0	0.0	5.4	5.4	0.0	5.4
Pre-tax profit	**2012**	**27.5**	**68.8**	**67.5**	**82.0**	**–39.9**	**205.9**	**13.8**	**219.7**
	2011	**30.3**	**63.1**	**59.9**	**48.0**	**–14.2**	**187.1**	**23.5**	**210.6**
Taxation	2012	8.5	21.6	21.1	25.7	5.3	82.2	4.3	86.5
	2011	9.2	19.8	18.8	15.1	3.0	65.9	7.4	73.3
Net profit for the year	**2012**	**19.0**	**47.2**	**46.4**	**56.3**	**–45.2**	**123.7**	**9.5**	**133.2**
	2011	**21.1**	**43.3**	**41.1**	**32.9**	**–17.2**	**121.2**	**16.1**	**137.3**
Change versus previous year in %		–10.0	9.0	12.9	71.1	162.8	2.1	–41.0	–3.0

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

Income before taxes in 2012 succeeded in slightly exceeding the good result of the previous year and, together with the unchanged high contribution to results of all four core segments, reflects the balance of the Bank's business structure and the stability of the client-based business model. The Corporate Banking and Institutional Clients segments were are able to further improve on their good results for the previous year, which confirms the sustained success of the Bank's growth strategy that started in 2010 and continued to be implemented in the two years that followed. Despite the unfavourable market environment, the Private Banking segment almost repeated its previous year's result. The sharp year-on-year increase in the result of the client-based Global Markets segment was due to the subsequent increased compensation in the course of the merger of two companies. The decline in revenue in the at-equity result and other operating result in the Central Divisions was due to the necessary write-down of an investment under the changes to the regulatory requirements and the creation of provisions for onerous contracts and pending litigation. This is compared with high revenues from the sale of a property in "Other net income" in the previous year.

Corporate Banking generated a clearly higher contribution to results, thanks to major increases in fee income and a largely volume-driven increase in interest income in the lending as well as the international business. This more than compensated for the decline in income from Investment Banking and net interest income on deposits, which had virtually halved due exclusively to lower margins on the back of the rate cuts by the ECB. In addition to hedging currencies, the refinancing of companies through corporate bond issuance and promissory note loans are of material importance to the projection of income in Corporate Banking.

The business with Institutional Clients also posted a significant increase in income. The segment benefited in particular from its improved market position arising from the intensive cooperation with HSBC Group; this was reflected in the form of higher net fee and net trading income from the origination and the sale of fixed-income products. The loss of noteworthy revenues from capital measures last year was offset by growth in income from its asset management operations with special funds.

The Private Banking segment failed to escape the adverse market conditions. A significant drop in earnings in the transaction-led securities business as a consequence of the cautious stance adopted by many private investors on the financial markets due to the uncertain environment and the collapse in net interest income on current account balances due solely to margins following the ECB rate cuts could not be offset entirely by a reduction in staff and administrative expenses.

Higher revenues in Treasury thanks to the Bank's high liquidity position and positive effects in the bond portfolio due to gradual spread tightening dominated interest rate trading. Lower revenues in customer-oriented equity derivatives trading were offset by the non-recurring effect of subsequent increased compensation in the course of a business combination.

The measures embarked on last year to limit the increase in costs in all of the Bank's segments were consistently applied this year too. The full impact of the cost reduction from the resulting slight decline in staff numbers during 2012 (from 2,577 to 2,528) compared with the end of the previous year will be felt next year. The non-recurring expense for the various adjustment measures necessary in conjunction with this is largely attributable for the significant increase in administrative expenses in the Bank's Central Divisions. Furthermore, the positive earnings development resulted in higher performance-related remuneration. Last year's staff expenses were adjusted pursuant to IFRS , as described in Note 18. The decline in other administrative expenses already reflects the effects of the cost-cutting measures that were introduced.

		Private Banking	Corporate Banking	Institu-tional Clients	Global Markets	Central Divisions	Total	Adjust-ments	Values as at balance sheet date
Cost-efficiency ratio in %	2012	71.8	55.7	63.4	39.9	0.0	69.1	0.0	69.1
	2011*	70.4	57.5	64.9	51.2	0.0	70.2	0.0	70.2
Assets** in €m	2012	584.0	2,874.0	3,615.1	4,473.2	9,146.9	20,693.2	−645.4	20,047.8
	2011*	443.0	2,005.0	2,692.0	5,280.6	9,500.2	19,920.8	714.4	20,635.2
Liabilities** in €m	2012	3,104.0	5,085.0	2,337.0	2,626.8	6,975.8	20,128.6	−2,026.6	18,102.0
	2011*	3,354.0	4,624.0	1,651.0	2,408.9	6,736.1	18,774.0	−30.2	18,804.2
Items for mandatory inclusion** in €m	2012	271.9	3,632.7	1,087.2	487.2	4,008.8	9,487.8	−249.8	9,238.0
	2011	465.4	2,841.7	940.7	479.7	3,725.2	8,452.6	1,147.4	9,600.0
Attributable shareholders' equity** in €m	2012	127.2	463.3	208.7	148.7	339.5	1,287.4	97.6	1,385.0
	2011*	146.5	384.2	194.1	148.0	341.7	1,214.5	81.6	1,296.1
Employees	2012	213	277	232	83	1,723	2,528	0	2,528
	2011	228	266	256	85	1,742	2,577	0	2,577
Return on equity before taxes (%)	2012	21.6	14.9	32.3	55.1	0.0	17.1	0.0	0.0
	2011*	20.7	16.4	30.9	32.4	0.0	17.1	0.0	0.0

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

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 has improved in the Corporate Banking, Institutional Clients and Trading segments, owing to their disproportionately high revenue growth compared with the growth in costs. On the other hand, the cost-efficiency ratio in the Private Banking segment increased slightly year-on-year, despite falling costs, as the reduction in revenue in the private banking business fell to a greater extent in percentage terms than administrative expenses. The cost-efficiency ratio at Group level improved from 70.2 % in 2011 to 69.1 % in 2012.

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 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 greatest increase in risk items for mandatory inclusion was reported in the Institutional Client and in particular the Corporate Clients segment. While the risk assets in Global Markets remained virtually constant, they fell sharply in Private Clients.

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	2012	193.4	26.2	0.1	219.7
	2011*	203.6	7.1	–0.1	210.6

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

Long-term segment assets amounted to € 251.6 million (2011: € 276.8 million) during the year under report, with Germany accounting for € 245.1 million (2011: € 269.3 million) thereof and the Luxembourg region for € 6.5 million (2011: € 7.5 million).

55 Measurement Classes

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

Assets as at 31.12.2012 in €m					
Measurement class	**At amortised cost**		**At fair value**		**Total**
Measurement category	**Loans and receivables**	**Other financial assets**	**Held-for-trading**	**Available-for-Sale**	
Cash reserve		265.0			265.0
Loans and advances to banks*	1,075.3				1,075.3
Loans and advances to customers *	4,053.9				4,053.9
Trading assets			9,212.6		9,212.6
Financial assets		53.9		5,014.4	5,068.3
Other financial instruments	23.2	7.7			30.9
Total financial instruments	5,152.4	326.6	9,212.6	5,014.4	19,706.0

Liabilities as at 31.12.2012 in €m			
Measurement class	**At amortised cost**	**At fair value**	**Total**
Measurement category	**Other liabilities**	**Held-for-trading**	
Deposits by banks	1,052.7		1,052.7
Customer accounts**	11,894.5		11,894.5
Certificated liabilities	10.0		10.0
Trading liabilities		4,874.6	4,874.6
Subordinated capital	353.4		353.4
Other financial instruments	153.0		153.0
Total financial instruments	13,463.6	4,874.6	18,338.2

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
**Our customers' deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.2011 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		672.2			672.2
Loans and advances to banks*	1,857.6				1,857.6
Loans and advances to customers *	3,690.1				3,690.1
Trading assets			9,852.3		9,852.3
Financial assets		52.2		4,112.5	4,164.7
Other financial instruments	10.5	19.9			30.4
Total financial instruments	**5,558.2**	**744.3**	**9,852.3**	**4,112.5**	**20,267.3**

Liabilities as at 31.12.2011 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other liabilities	Held-for-trading	
Deposits by banks	749.6		749.6
Customer accounts**	12,413.3		12,413.3
Certificated liabilities	10.0		10.0
Trading liabilities		5,426.0	5,426.0
Subordinated capital	353.3		353.3
Other financial instruments	93.0		93.0
Total financial instruments	**13,619.2**	**5,426.0**	**19,045.2**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or 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 of a financial instrument is the price at which an asset or a liability could be exchanged within the scope of a transaction between knowledgeable, willing and independent business partners at this point in time.

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 which are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and whose input parameters are all quoted on 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 some input parameters at least are not observed. 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 in particular the measurement of credit and model risk, as well as taking reasonable account of market liquidity.

In 2012, we adjusted the method for calculating the so-called credit valuation adjustments (CVA) for derivatives. Previously, we calculated the default probabilities on the basis of historical data. Due to developments observed on the market, we included for the first time current market assessments for default probabilities when measuring derivatives in the 2012 financial year. For the same reason, we adjusted the methods for calculating the so-called debt valuation adjustments (DVA) for derivatives. In previous years, a DVA was measured at zero. Beginning in 2012, current market assessments for default probabilities are also taken into account. The conversion resulted in a non-recurring charge on results of around € 5 million.

Cash reserves, interbank funds, book-entry claims on customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book value:

in €m	31.12.2012		31.12.2011	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	30.9	30.9	30.4	30.4

in €m	31.12.2012		31.12.2011	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks	1,052.7	1,052.7	749.6	749.6
Customer accounts (from the measurement of long-term promissory note loans borrowed)	11,894.5	11,940.4	12,413.3	12,449.2
Certificated liabilities	10.0	8.7	10.0	9.2
Subordinated capital	353.4	410.7	353.3	393.7
Other financial instruments	153.0	153.0	93.0	93.0

As in the previous year, the book values of the contingent liabilities (€ 1,805.6 million; 2011: € 1,746.1 million) and irrevocable loan commitments (€ 5,253.7 million; 2011: € 5,156.4 million) equate to the fair values. The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships or unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

in €m	31.12.2012	31.12.2011
	Book value	Book value
Partnerships	15.7	15.8
Holdings in unlisted public limited companies	38.2	36.4
Total	53.9	52.2

Partnerships for which there is no active market were not disposed of during the year under report (2011: € 0.1 million). The bank has no intentions to dispose of partnerships at this point in time.

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2012 €m		observed parameters	unobservable parameters		
Trading assets	1,380.1	7,826.1	6.4	0.0	9,212.6
of which derivatives in hedging relationships	0.0	0.0	0.0	0.0	0.0
Financial assets	1,198.2	3,816.2	0.0	53.9	5,068.3
Trading liabilities	51.5	4,764.6	58.5	0.0	4,874.6
of which derivatives in hedging relationships	0.0	70.4	0.0	0.0	70.4

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2011 in €m		observed parameters	unobservable parameters		
Trading assets	2,108.7	7,726.9	16.7	0.0	9,852.3
of which derivatives in hedging relationships	0.0	0.0	0.0	0.0	0.0
Financial assets	1,090.5	3,016.0	6,0	52.2	4,164.7
Trading liabilities	116.5	5,260.6	48.9	0.0	5,426.0
of which derivatives in hedging relationships	0.0	39.5	0.0	0.0	39.5

For some financial instruments, quoted prices are used as fair values (so-called level 1). The fair values of other financial instruments are measured using the Bank's own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

Level 2 equity instruments comprise for the most part plain vanilla options or single barrier options. The former are measured by means of a Black-Scholes approach (binomial process), while the latter are evaluated using an approximate valuation approach. The following observable market parameters – underlying spot, underlying volatility, underlying dividends and interest rate – are included in these models.

Level 2 transactions in interest-rate instruments are generally valued using the discounted cash flow method or the Black-Scholes approach. The necessary parameters are also observable on the market.

No financial Instruments were transferred from level 1 to level 2 in the year under report (2011: € 101.4 million). Similarly, financial instruments in the amount of € 98.4 million were transferred from level 2 to level 1 (2011: € 482.4 million).

The liquidity of the relevant markets is a particular criterion for transfers from level 1 to level 2 and vice versa. Liquidity assessment on the basis of trading volume, pricing frequency, price variation and a price's bid/offer spread.

Additionally, the fair value of some financial instruments were calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include, amongst other things, equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in 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 the year under report, the volume of level 3 financial instruments amounted to € 64.9 million (2011: € 71.6 million).

The portfolio of level 3 financial instruments developed as follows in the year under report:

in €m	Trading assets	Financial assets	Trading liabilities	Total
01.01.2012	**16.7**	**6.0**	**48.9**	**71.6**
Changes in the carrying amount				
recognised in the income statement	–0.3	0.0	12.2	11.9
recognised directly in equity	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	36.9	36.9
Sales	9.0	0.0	12.0	21.0
Maturities	1.0	6.0	31.4	38.4
Transfers to level 3	0.0	0.0	4.9	4.9
Transfers out of level 3	0.0	0.0	1.0	1.0
31.12.2012	**6.4**	**0.0**	**58.5**	**64.9**

in €m	Trading assets	Financial assets	Trading liabilities	Total
01.01.2011	17.8	5.8	63.7	87.3
Changes in the carrying amount				
recognised in the income statement	–1.1	0.2	–19.5	–0.4
recognised directly in equity	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	37.4	37.4
Sales	0.0	0.0	0.6	0.6
Maturities	0.0	0.0	28.3	28.3
Transfers to level 3	0.0	0.0	0.0	0.0
Transfers out of level 3	0.0	0.0	3.8	3.8
31.12.2011	**16.7**	**6.0**	**48.9**	**71.6**

Transfers from level 3 are due to the reason for the uncertainty (volatility and correlation) being objectified during the period under report. Level 3 instruments held at the end of the reporting period include a measurement loss of €10.0 million. A +/- 25 % change in the unobservable parameters would reduce the market value by € 46,766 or € 36,064 (2011: € 918,897/€ 718,727).

57 Day-1 Profit or Loss

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

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

in €m	2012	2011
As at 01.01.	**2.2**	**2.3**
New business	0.9	2.3
Day-1 profit or loss recognised in the income statement	–2.2	–2.4
of which positions closed out	–2.1	–1.2
of which matured transactions	–0.1	–1.2
of which observable market parameters	0.0	0.0
As at 31.12.	**0.9**	**2.2**

58 Holdings in Foreign Currency

As at 31 December 2012, assets denominated in a foreign currency were valued at € 1,552.8 million (2011: € 1,585.7 million) and the corresponding liabilities at € 3,022.6 million (2011: € 2,785.3 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

The market values of the derivatives are always reported in euros.

59 Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with Section 36 of the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e.V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of any netting agreements. As there is no counterparty risk on exchange-traded derivatives, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2012	Total 2011
OTC products	FRAs	0	0	0	0	5
	Interest rate swaps	5,348	9,018	7,808	22,174	26,186
	Interest rate options	500	1,686	885	3,071	3,448
	Forward transactions	120	1,020	100	1,240	891
Exchange-listed	Interest rate futures	173	70	0	243	1,179
	Interest rate options	42	670	141	853	1,116
Interest rate transactions		**6,183**	**12,464**	**8,934**	**27,581**	**32,825**
OTC products	Foreign exchange forwards	29,500	1,081	285	30,866	28,775
	Cross currency swaps	426	46	178	650	936
	Foreign exchange options	1,707	111	0	1,818	2,824
Foreign exchange-based transactions*		**31,633**	**1,238**	**463**	**33,334**	**32,535**
OTC products	Forward transactions	78	13	0	91	2
	Equity/index options	43	40	0	83	134
	Equity swaps	6	20	23	49	141
Exchange-listed	Equity/index futures	457	17	0	474	431
	Equity/index options	2,421	2,061	93	4,575	6,078
Equity/index-based transactions		**3,005**	**2,151**	**116**	**5,272**	**6,786**
Total financial derivatives		**40,821**	**15,853**	**9,513**	**66,187**	**72,146**

* including gold transactions

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 2012	Total 2011	Total 2012	Total 2011
OTC products	FRAs	0	0	0	0	0	0	0
	Interest rate swaps	35	277	833	1,145	1,197	1,493	1,538
	Interest rate options	2	55	18	75	68	123	78
	Forward transactions	1	0	0	1	1	8	11
Interest rate transactions		38	332	851	1,220	1,266	1,624	1,627
OTC products	Foreign exchange forwards	275	18	27	320	602	328	579
	Cross currency swaps	12	1	6	19	17	19	1
	Foreign exchange options	12	4	0	16	34	18	35
Foreign exchange-based transactions*		299	23	33	355	652	365	615
OTC products	Forward transactions	0	0	0	0	0	18	0
	Equity/index options	14	2	0	16	30	14	48
	Equity swaps	0	1	2	3	4	1	5
Equity/index-based transactions		14	3	2	20	34	33	53
Total financial derivatives		351	358	886	1,595	1,952	2,022	2,296

* including gold transactions

Hedging instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedges; cf. Note 6).

This hedging relationship resulted in negative market values of € 70.4 million (2011: € 39.5 million) as at 31 December 2012 and no positive market values.

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

Profit and loss in €m	2012	2011
From hedging instruments	–28.1	–28.3
From underlying transactions	28.0	28.4

60 Contingent Liabilities and Other Obligations

in €m	31.12.2012	31.12.2011
Contingent liabilities on guarantees and indemnity agreements	1,805.6	1,746.1
Irrevocable loan commitments	5,253.7	5,156.4
Total	7,059.3	6,902.5

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

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfillment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.).

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 101.3 million (2011:€ 97.5 million) as at the balance sheet date.

in €m	31.12.2012	31.12.2011
Up to 1 year	24.0	21.1
Over 1 year up to 5 years	43.7	41.4
Over 5 years	33.6	35.0
Total commitments arising from leasing and rental contracts	101.3	97.5

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.

61 Assets Pledged as Collateral

Securities with a nominal value of € 233.6 million (2011: € 960.1 million) were deposited as collateral for transactions on Eurex and for securities lending operations (cf. Note 31).

Debt instruments with a nominal value of € 4,801.1 million (2011: 4,449.2 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

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

in €m	31.12.2012	31.12.2011
Trust assets	**248.2**	**337.6**
Loans and advances to banks	90.9	162.4
Loans and advances to customers	5.6	23.9
Investments	151.7	151.3
Trust liabilities	**248.2**	**337.6**
Deposits by banks	0.0	0.6
Customer accounts	248.2	337.0

63 Participating Interests

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

Company	Registered office	Percentage share of issued share capital in %	Equity held in the company in € 000	Net profit for 2012 in € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	0 *
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	123,263	14,950
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	624	–8
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	24,000	0 *
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	4,212	166
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,953	5
HSBC Transaction Services GmbH	Düsseldorf	100.0	15,000	0 *
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0 *
HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments OHG***	Düsseldorf	10.0	550,700	7,676
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0 *
HSBC Global Asset Management (Österreich) GmbH****	Vienna	100.0	401	62
HSBC Global Asset Management (Switzerland) AG***	Zurich	50.0	1,774	102
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	0
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	62	5
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	36	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	66	5
Trinkaus Canada 1 GP Ltd.****	Toronto	100.0	–30	–31
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	21	–2
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	45	15
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0 *
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,423	1,350
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	0 *

Company	Registered office	Percentage share of issued share capital in %	Equity held in the company in € 000	Net profit for 2012 in € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	2,762	−3,812
Other companies				
HSBC Trinkaus Consult GmbH****	Düsseldorf	100.0	5,934	−200
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	30	5

* Profit-transfer agreement
** Equities issued by private companies
*** Consolidated at equity
**** Figures as at 31 December 2011

HSBC Trinkaus also holds a 26.6 % stake in sino AG, Düsseldorf. As at 30 June 2012, the equity held in the company was € 4,630,000 and net profit € 289,000.

64 Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (HGB)

The following subsidiaries intend to make use of the exemption afforded by section 264 (3) of the German Commercial Code (HGB) and will not publish their financial statements:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf

65 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully-consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf – are in a position to fulfil their contractual obligations.

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

66 Staff

Annual average	2012	2011
Staff employed abroad	217	219
Staff employed in Germany	2,329	2,316
Total (including trainees)	2,546	2,535
of which:		
female members of staff	1,107	1,104
male members of staff	1,439	1,431

67 Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses, were reported as expense: The previous year's figures had to be adjusted as they included obligations, some of which were included in other audit or valuation services.

in €m	2012	2011
Audits	1.0	1.0
Other audit or valuation services	0.2	0.2
Tax advisory services	0.1	0.2
Other services	0.1	0.0
Total	1.4	1.4

68 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 other hand, are generally concluded under master agreements that allow netting and secured within the scope of CSAs (Credit Support Annex). On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group.

Overall, the consolidated income statement includes € 117.8 million (2011: 138.7 million) in income and € 22.3 million (2011: € 27.4 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. In the 2012 financial year, interest income from other HSBC companies amounted to € 24.5 million (2011: € 23.4 million), while interest expense stood at € 5.2 million (2011: € 9.6 million).

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

	Affiliated companies		Associated companies	
in €m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Loans and advances to banks	586.7	1,041.9	0.0	0.0
Loans and advances to customers	0.0	0.0	57.1	40.4
Total	586.7	1,041.9	57.1	40.4

Liabilities to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Deposits by banks	628.1	321.2	0.0	0.0
Customer accounts	28.0	21.8	9.8	10.2
Total	656.1	343.0	9.8	10.2

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

	Securities		Derivatives	
in €m	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Trading assets	0.0	0.0	875.6	892.6
Trading liabilities	0.0	0.0	1,735.7	1,468.3
Financial assets	738.4	733.2	0.0	0.0

69 Share-Based Payments

Breakdown of the share option scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2012	Number of option rights 31.12.2011
SAYE 2007 (5Y)	01.08.2007	2.99	9.08	–	4,807
SAYE 2008 (5Y)	01.08.2008	2.77	7.55	7,841	10,030
SAYE 2009 (3Y/5Y)	01.08.2009	1.59/1.50	3.64	381,399	773,805
SAYE 2010 (3Y/5Y)	01.08.2010	1.90/2.01	6.07	67,272	74,288
SAYE 2011 (1Y/3Y/5Y)	01.08.2011	1.41/1.53/1.61	5.80	82,026	195,857
SAYE 2012 (1Y/3Y/5Y)	01.08.2012	1.30/1.29/1.30	5.35	270,705	–
Total				809,243	1,058,787

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 2012 was € 6.82 (1 August 2011: € 6.84).

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2012	SAYE 2007 – 2011	1,058,787	4.27
Granted in the course of the year	SAYE 2012	270,705	5.35
Exercised in the course of the year	SAYE 2007 (5Y) / SAYE 2009 (3Y) / SAYE 2011 (1Y)	507,583	4.12
Forfeited in the course of the year	SAYE 2008-2012	12,666	7.82
Balance as at 31.12.2012		809,243	4.67
of which outstanding option rights		784,189	
of which exercisable option rights		25,054	

The weighted average remaining term to maturity of option rights still outstanding as at 31 December 2012 was 598 days. The staff expenses to be taken into account in the year under report are € 0.5 million (2011: € 0.6 million).

Performance-related remuneration for staff and members of the Management Board

As in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc. Shares in the amount of € 15.2 million (2011: € 15.3 million) were assigned for the 2012 financial year. The shares will be transferred on a pro rata basis for the financial years 2013, 2014, 2015 and 2016.

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € – 7.5 million (2011*: € 2.0 million). The corresponding liability for performance-related remuneration payable amounts to € 62.3 million (2011*: € 56.6 million).

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

70 Statement on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the Commission of the German Corporate Governance Code and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG website under www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporategovernance.

71 Offices Held by Members of the Management Board

As at 31 December 2012, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies: Messrs Manfred Krause (member of the Management Board) and Florian Fautz (member of the Executive Committee) did not hold any offices subject to disclosure during the year under report.

Andreas Schmitz (Chairman)	
Position	**Company**
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Board of Directors	KfW-Bankengruppe, Frankfurt/Main
Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt/Main
Deputy Member of the Board of Directors	L-Bank, Karlsruhe

Paul Hagen	
Position	**Company**
Chairman of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH
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	RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth	
Position	**Company**
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

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	Thyssen Krupp AG

Dr. Rudolf Apenbrink (Divisional Board Member)	
Position	**Company**
Chairman of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Dr. Christiane Lindenschmidt (Divisional Board Member)	
Position	**Company**
Chairwoman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Non-Executive Member of the Board of Directors	HSBC Securities Services S.A., Luxembourg
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

72 Offices Held by Other Members of Staff

As at 31 December 2012, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr. Michael Böhm	
Position	**Company**
Member of the Advisory Board	DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbh, Frankfurt am Main

Robert Demohn	
Position	**Company**
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Gerd Goetz	
Position	**Company**
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf
Member of the Supervisory Board	sino AG, Düsseldorf
Member of the Supervisory Board	tick-TS AG, Düsseldorf

Marcus 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

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

Marc Landvatter	
Position	**Company**
Deputy Chairman of the Supervisory Board	Algopool InvAG, Cologne

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**
Deputy Chairman 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

Hans Jakob Zimmermann	
Position	**Company**
Chairman of the Supervisory Board	Garant Schuh & Mode AG, Düsseldorf
Chairman of the Supervisory Board	Merkur Bank KGaA, Munich
Chairman of the Supervisory Board	Paragon AG, Delbrück
Chairman of the Supervisory Board	Schaltbau Holding AG, Munich
Member of the Board of Directors	Rheinzink GmbH & Co. KG, Datteln
Member of the Supervisory Board (retired)	Siag Nordseewerke GmbH, Emden
Member of the Supervisory Board	Scholz AG, Essingen

73 Offices Held by Supervisory Board Members

The members of our Supervisory Board also sit on the statutory supervisory boards and the comparable control bodies listed below:

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Chairman of the Board of Directors	Management Partner GmbH, Stuttgart

Samir Assaf	
Position	Company
Director	HSBC Bank Egypt S.A.E., Cairo, Egypt

Peter W. Boyles	
Position	Company
Chairman	HSBC Bank A.S., Istanbul, Turkey
Deputy Chairman	HSBC France S.A., Paris, France
Member of the Supervisory Board	S.A. des Galeries Lafayette, Paris, France
Director	HSBC Bank plc, London, Great Britain
Director	HSBC Bank Malta plc, Valletta, Malta

Dr. Hans Michael Gaul	
Position	Company
Member of the Supervisory Board	BDO AG, Hamburg
Member of the Supervisory Board	Evonik Industries AG, Essen
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

Harold Hörauf	
Position	**Company**
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	BVV Pensionsfonds des Bankgewerbes AG, Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e. V., Berlin

Friedrich Merz	
Position	**Company**
Chairman of the Supervisory Board	WEPA Industrieholding SE, Arnsberg
Member of the Supervisory Board	AXA Konzern AG, Cologne
Member of the Supervisory Board	Borussia Dortmund GmbH & Co. KGaA, Dortmund
Member of the Supervisory Board	Deutsche Börse AG, Frankfurt/Main
Member of the Board of Directors	BASF Antwerpen N.V., Antwerp, Belgium
Member of the Board of Directors	Stadler Rail AG, Bussnang, Switzerland

Hans-Jörg Vetter	
Position	**Company**
Chairman of the Supervisory Board	BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart
Chairman of the Supervisory Board	Herrenknecht AG, Schwanau
Chairman of the Supervisory Board	LBBW Immobilien GmbH, 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
Member of the Supervisory Board	Allgaier Werke GmbH, Uhingen
Member of the Supervisory Board	Deutscher Sparkassen Verlag GmbH, Stuttgart
Member of the Board of Directors	Schweizerische National-Versicherungs-Gesellschaft, Basel, Switzerland

74 Publication

The Annual Report will be released for publication on 13 March 2013 by the Management Board and on 10 April 2013 by the Supervisory Board.

Düsseldorf, 13 February 2013

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Manfred Krause

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 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the Group’s business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group’s position and suitably presents the opportunities and risks of future development.

Düsseldorf, 19 February 2013

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

Report of the Supervisory Board

Management

At four meetings conducted during the 2011 financial year, the Supervisory Board received comprehensive reports from the Management Board on the development of business at the Bank, its major subsidiaries, and individual business areas.

The reports given by the Management Board to the Supervisory Board addressed current business development against target figures and the figures of the corresponding period of the previous year, risk management aspects, external audit activities, and corporate governance issues. The Bank's investment securities (including the relevant valuation) and liquidity situation were also presented to the Supervisory Board. Reports given on material individual transactions included the strategy pursued in the "Custody" business area, the measures to increase organisational effectiveness and reconstruction planning of the office premises.

At one meeting, the Supervisory Board focused on the review and discussion of the strategic positioning of the Bank, its business policy contemplated for 2013, and its principles of corporate planning. 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 2012 audit plan in great detail. As a result of this presentation, the auditor was mandated to perform the audit of the annual financial statements and the consolidated financial statements, on the basis of the appropriate fee structure agreed.

In November 2012 the Supervisory Board agreed to Dr. Huth's resignation from the Management Board by mutual consent with the Bank, effective 4 June 2013, the date of the General Annual Meeting. In addition, the Supervisory Board agreed to the amended distribution of responsibilities amongst the Management Board members, e.g. Mr. Schmitz will at the time take over the responsibility for Private Banking. Accordingly the number of the Management Board members will be decreased from five to four.

Activities of the Supervisory Board's committees

In order to permit the more efficient handling of selected management issues, the Supervisory Board set up four separate committees from amongst its members. 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 by the General Meeting;
- the Remuneration Committee, whose responsibilities include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board, long-term successor planning in cooperation with the Management Board, the handling of conflicts of interests of Management Board or Supervisory Board members, as well as the approval of loans from the Bank to its employees and their family members, or to members of the Supervisory Board;
- the Audit and Risk Committee which, in addition to the issuing of the audit mandate to the auditor, is responsible for the determination of the focal points for the audit, monitoring the auditor's independence and concluding a fee agreement with the auditor. The Committee also handles accounting and fundamental-risk management issues, as well as regularly discussing the audit findings of Internal Audit and external auditors. The Su-

pervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act (Kreditwesengesetz) – particularly with regard to connected-party loans to enterprises. The Audit and Risk Committee also discusses the risk management strategy with the Management Board, which is responsible for devising it.

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

The Remuneration Committee met four times. The Audit and Risk Committee met seven times, of which three meetings were held as a conference call.

The Remuneration Committee submitted proposals concerning Management Board remuneration, and concerned itself with the Bank's remuneration system. The Committee proposed to the Supervisory Board to comply with the wish of Dr. Huth and accept his resignation from his office as Management Board member with effect from 4 June 2013. Furthermore, the Committee approved various appointments of Managing Directors of subsidiaries.

A key topic discussed by the Audit and Risk Committee was allowance for credit losses. Related discussions covered both the overall credit risk strategy (which was also discussed by the plenary meeting of the Supervisory Board) and individual exposures. Moreover, the Audit and Risk Committee carried out all regular tasks delegated to it by the Supervisory Board in the course of all Committee meetings.

The Audit and Risk Committee duly noted and discussed reports submitted by Internal Audit, the Compliance Officer, the Money Laundering Prevention Officer as well as the General Counsel during its plenary meetings; moreover, reports submitted by the external auditors were noted and discussed during two meetings. During three conference calls, the Audit and Risk Committee discussed the draft quarterly reports prior to publication.

Corporate Governance

During its meetings in February and November, the Supervisory Board discussed the German Corporate Governance Code and its implementation by the Company. The 2012 Corporate Governance Report, which details and explains the deviations from the recommendations of the Government Commission "German Corporate Governance Code", is included in this Annual Report. Together with the Declaration pursuant to section 161 Stock Corporation Act (§ 161 AktG), the report is also available for download from the Bank's website.

In its efficiency examination, the Supervisory Board concluded that in view of the personal professional qualifications of individual members of its body, it had no concerns whatsoever regarding their suitability. To assess and determine its efficiency, the Supervisory Board carried out a self-evaluation as recommended by the German Corporate Governance Code.

The information given to the Supervisory Board satisfied all legal requirements and, in particular with regard to the depth of information provided on risks and to the supplementary presentations on new products, services and the activities of selected business areas, exceeded the requirements of the AktG. The Supervisory Board therefore concluded that comprehensive information had been provided. The external auditors' report contained no findings which had not previously been reported on and examined at Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently.

During the 2012 financial year, no conflicts of interest were detected between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board's Audit and Risk Committee satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

Annual financial statements

The Supervisory Board examined the annual financial statements of the Bank for the year ending 31 December 2012, as well as the 2011 Management Report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting on 10 April 2013. The Annual General Meeting held on 05 June 2012 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the auditors for the financial statements and consolidated financial statements. The Supervisory Board's Audit and Risk Committee commissioned the auditors to carry out the audit of the financial statements and the consolidated financial statements on 5 September 2012. KPMG have audited the Bank's books, its annual financial statements and the Management Report for the year ending 31 December 2012, and have issued their unqualified audit opinion. The audit report was submitted to the Supervisory Board; no objections were raised.

The consolidated financial statements for the year ended 31 December 2012 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (Handelsgesetzbuch – "HGB"). These financial statements were also audited by KPMG and given an unqualified opinion. Both the consolidated financial statements and the audit report were submitted to the Supervisory Board, and approved by it, in its meeting on 10 April 2013.

Relationships with affiliated enterprises

In accordance with section 312 of the AktG, the Management Board has prepared a report on the Bank's relationships with affiliated enterprises for the 2012 financial year. Pursuant to section 313 of the AktG, the auditor provided this report with the following audit opinion: "Having duly examined and assessed this report in accordance with professional standards, we confirm that (1) the report is free from factual misrepresentations, and (2) that the company did not pay any excessive consideration with regard to the transactions identified in the report." The Supervisory Board duly noted and approved this report.

Personnel changes within the Supervisory Board

For the financial year 2012 no personnel changes within the Supervisory Board had to be reported.

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 2013

The Supervisory Board

Sieghardt Rometsch

Dr. Sieghardt Rometsch
Chairman

Corporate Governance Report 2012

Corporate Governance as an integral part of our corporate culture

The German Corporate Governance Principles, as we have adopted them in our Declaration pursuant to section 161 of the Stock Corporation Act (Aktiengesetz – "AktG") – as shown below, are integral to the corporate culture of HSBC Trinkaus & Burkhardt. An open information policy toward our shareholders, clear management structures, transparency of financial accounting, and the strict avoidance of conflicts of interest are all indispensable conditions for winning and retaining the trust of our investors and business partners on the national and international financial markets. Our Code of Conduct sets out our understanding of corporate values and behavioural standards. Our Management Board and staff have given a written commitment that they will comply with this Code of Conduct.

Both management and representation of the Bank are the responsibility of a Management Board, consisting of five members. At the end of 2012, the Management Board was assisted by three Executive Committee members responsible for the Investment Banking, Technology and Services, and Asset Management businesses. The Bank's organisational structure including the responsibilities of the individual members of the Management Board for their specific business areas, and central functions – is described in the "Business areas" section 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 now comprises 16 members, shareholders and employees being represented by eight members each.

The Supervisory Board currently has three female members. As the largest shareholder (holding a stake exceeding 80 %), HSBC has two representatives on the Supervisory Board, neither of whom is a German national. LBBW, the second largest shareholder (holding a stake of just under 19 %), has one representative on the Supervisory Board. Of the eight shareholder representatives, six individuals hold professional experience obtained in senior positions in the banking sector; the two other individuals have each gained their experience in similar positions in other business sectors.

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. As a minimum, there should be at least five independent shareholder representatives among the members of the Supervisory Board.

- 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 it sensible to impose any fixed age limit for membership of the Supervisory Board. 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 has set up four separate committees from amongst its members:

- 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 by the General Meeting;

- the Remuneration Committee, whose responsibilities include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board, the long-term successor planning in cooperation with the Management Board, the handling of conflicts of interests of Management Board or Supervisory Board members, as well as the approval of loans from the Bank to its employees and their family members, or to members of the Supervisory Board;

- the Audit and Risk Committee which, in addition to the issuing of the audit mandate to the auditor, is responsible for the determination of the focal points for the audit, monitoring the auditor's independence and concluding a fee agreement with the auditor. The Committee also handles accounting and fundamental risk-management issues as well as regularly discussing the audit findings of Internal Audit and external auditors. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or the provisions of the German Banking Act (Kreditwesengesetz) – particularly with regard to connected-party loans to enterprises. The Audit and Risk Committee also discusses the risk-management strategy with the Management Board, which is responsible for devising it.

Resolutions of the Supervisory Board and its committees shall be adopted with a simple majority of votes cast, unless mandatory law provides otherwise. All the committees of the Supervisory Board consist of between three and five members. The chairperson of the Supervisory Board only chairs the Mediation, Nomination and Remuneration Committees. The members of the Management Board, Supervisory Board and of the Supervisory Board's committees are listed in the Annual Report, Chapter "Executive Bodies". The Report of the Supervisory Board on its activities during the financial year under review, which has also been included in our Annual Report, describes in more detail the number of Supervisory Board and committee meetings as well as the specific items discussed during the financial year under review.

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

In 2012, no transactions in HSBC Trinkaus & Burkhardt shares or any rights to those shares which would require a disclosure under section 15 a of the WpHG and subsection 6.6 of the Corporate Governance Code have been made by persons who are subject to a reporting requirement.

Continuous monitoring

We have entrusted the Head of our Bank's company secretariat with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2012 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the Corporate Governance Code.

Declaration pursuant to section 161 of the 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 for the German Corporate Governance Code" as published in the official section of the web-based Federal Gazette in the version of 15 May 2012, and that they will continue to comply with this Code in the future.

The Company does not implement the recommendation, in accordance with section 2.3.2 of the German Corporate Governance Code (the "Code"), of giving notice of convening the General Meeting, and disseminating related documents to financial services providers, shareholders, and shareholders' associations by electronic means if the approval requirements have been fulfilled. Given that the Company's shares are bearer shares, to implement this recommendation in practice would incur material obstacles, and is also likely to incur significant costs. Taking the Company's shareholder structure into account, there is no real need to propose the requisite resolution for approval to the General Meeting.

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 Company does not comply with the recommendation of Section 5.4.2, according to which the Supervisory Board should not include more than two former members of the Management Board. HSBC Trinkaus has preserved its special profile, whereby long-term and personal client relationships represent a key strategic element, even after the change in its legal form to a public limited company. Through the transition from the Bank's executive management to the Supervisory Board, in the past the Company has managed to avoid disruptions of client relations and ensured continuity, which the former Managing Partners or Management Board members ascertain as members of the Supervisory Board. A strict limitation to two former members of the Management Board does not support this concept.

The recommendation of the Government Commission in section 5.4.3 of the Corporate Governance Code has been implemented with the modification that elections to the Supervisory Board will only be made on an individual basis if a shareholder has presented a motion to this effect at the Annual General Meeting for which the election is scheduled. This regulation provides sufficient protection to shareholders whilst at the same time granting the necessary organisational flexibility.

Furthermore, the Company has refrained from adopting the recommendation of the Government Commission in sentence 3 of section 5.4.3 of the Code that the shareholders should be notified, in advance, of the candidates for an upcoming election of the chairperson of the Supervisory Board. According to the Articles of Association of HSBC Trinkaus and Burkhardt AG, the term of office for which members of the Supervisory Board are elected ends on the same date for all members, so that new elections at the end of a term are automatically new elections of the entire Supervisory Board. Upon such a complete new election, the newly-elected members convene immediately after the Annual General Meeting in which the election took place in order to appoint one of their number as the chairperson. An earlier announcement of the candidates for the chairmanship by the old Supervisory Board (as recommended by the Code) would pre-determine and limit the freedom of the new Supervisory Board to appoint its chairperson. Even though the newly elected Supervisory Board would not be bound by the announcements of candidates proposed by the old Supervisory Board, any deviation from such proposals would result in negative publicity detrimental to the Bank.

The recommendation in section 5.4.6 concerning disclosure of individualised details of the remuneration of Supervisory Board members (including fees for personal advisory or intermediation services rendered) in the Corporate Governance Report, has not been adopted. The details regarding the remuneration of Supervisory Board members are disclosed in the consolidated management report of the financial statements of HSBC Trinkaus & Burkhardt AG. Such disclosure to the general public 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 6.3 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 6.3 of the Code.

Published information about the company as defined in section 6.8 only comprises information that may affect the share price of HSBC Trinkaus & Burkhardt AG. The comments above regarding section 6.3 apply mutatis mutandis.

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 2013

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, 13 February 2013

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Manfred Krause

Carola Gräfin v. Schmettow

Locations

Düsseldorf Head Office
Königsallee 21/23
40212 Düsseldorf
Phone: +49 211 910-0
Fax: +49 211 910-616
BLZ 300 308 80
S.W.I.F.T. TUBDDEDD
www.hsbctrinkaus.de

Branches

Baden-Baden
Maria-Viktoria-Straße 2
76530 Baden-Baden
Phone: +49 7221 9386-0
Fax: +49 7221 26753

Berlin
Joachimstaler Straße 34
10719 Berlin
Phone: +49 30 88581-0
Fax: +49 30 8819304

Frankfurt am Main
Asset Management
Guiollettstraße 24
60325 Frankfurt am Main
Phone: +49 69 71903-0
Fax: +49 69 71903-33

Corporate Banking
Taunusanlage 1
60329 Frankfurt am Main
Phone: +49 69 71903-0
Fax: +49 69 71903-32

Investment Banking
Taunusanlage 1
60329 Frankfurt am Main
Phone: +49 69 71903-0
Fax: +49 69 71903-747

Hamburg
Gänsemarkt 45
20354 Hamburg
Phone: +49 40 35614-0
Fax: +49 40 346557
S.W.I.F.T. TUBDDEHH

Cologne
Zeppelinstraße 4–8
50667 Cologne
Phone: +49 221 270578-0
Fax: +49 221 270578-50

Munich
Karl-Scharnagl-Ring 7
80539 Munich
Phone: +49 89 229016-0
Fax: +49 89 297412

Stuttgart
Königstraße 26
70173 Stuttgart
Phone: +49 711 22890-0
Fax: +49 711 22890-43

HSBC Global Asset Management (Deutschland) GmbH
Königsallee 21/23
40212 Düsseldorf
Phone: +49 211 910-4784
Fax: +49 211 910-1775

HSBC Trinkaus Real Estate GmbH
Königsallee 21/23
40212 Düsseldorf
Phone: +49 211 910-615
Fax: +49 211 910-93844

Internationale Kapitalanlagegesellschaft mbH
Yorckstraße 21
40476 Düsseldorf
Phone: +49 211 910-2581
Fax: +49 211 329329

HSBC Transaction Services GmbH
Yorckstraße 21–23
40476 Düsseldorf
Phone: +49 211 910-0
Fax: +49 211 910-3123

HSBC Trinkaus & Burkhardt (International) S.A.
8, Rue Lou Hemmer
L-1748 Luxembourg-Findel
Phone: +352 471847-1
Fax: +352 471847-2555
S.W.I.F.T. TUBDLULL

HSBC Trinkaus Investment Managers S.A.
8, Rue Lou Hemmer
L-1748 Luxembourg-Findel
Phone: +352 471847-1
Fax: +352 471847-2650

Imprint

HSBC Trinkaus & Burkhardt AG
Königsallee 21/23, 40212 Düsseldorf
Phone: +49 211 910-0
Fax: +49 211 910-616
www.hsbctrinkaus.de

This publication is a non-binding translation of the original German version.

Overall production
mpm media process management GmbH, Mainz

Layout
Ogilvy & Mather Advertising GmbH, Düsseldorf

Photos
Marc Darchinger, Berlin
Claudia Kempf, Wuppertal
Jochen Manz, Cologne
Aleksander Perkovic, Mönchengladbach

Printed by
SD Service-Druck GmbH & Co. KG, Neuss

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 2012 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 2013. Such statements about the future can be found in particular in the Letter from the Management Board to our shareholders in the "Outlook for 2013" section, in the section on our company's strategy and also in many other places throughout this Annual Report. These statements about the future are based on our expectations of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans. All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the financial year 2013 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

15 May 2013
Interim Report as at 31 March 2013

4 June 2013
Annual General Meeting

22 August 2013
Press conference
Interim Report as at 30 June 2013

12 November 2013
Interim Report as at 30 September 2013

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2012	2011*	2010	2009	2008
Total assets	20,047.8	20,635.2	18,584.0	18,728.6	22,205.7
Assets					
Cash reserve	265.0	672.2	336.1	177.0	139.5
Loans and advances to banks	1,075.3	1,857.6	1,402.9	2,429.4	2,979.7
Loans and advances to customers	4,079.1	3,717.2	3,089.6	2,687.5	4,082.6
Net loan impairment and other credit risk provisions	–25.2	–27.1	–49.1	–42.9	–21.4
Trading assets	9,212.6	9,852.3	10,130.6	10,005.7	12,482.6
Financial assets	5,068.3	4,164.7	3,305.9	3,126.1	2,118.8
Share of profit in associates	55.1	65.2	38.0	10.6	10.1
Property, plant and equipment	80.6	79.3	83.1	83.3	81.1
Intangible assets	23.7	31.3	38.9	44.1	56.0
Taxation recoverable	1.2	8.6	4.3	13.0	17.5
current	1.2	8.6	4.3	13.0	13.0
deferred	0.0	0.8	0.0	0.0	4.5
Other assets	212.1	213.1	203.7	194.8	259.2
Liabilities					
Deposits by banks	1,052.7	749.6	1,180.4	2,697.6	2,709.1
Customer accounts	11,894.5	12,413.3	10,148.0	9,062.1	11,592.8
Certificated liabilities	10.0	10.0	10.0	10.0	10.0
Trading liabilities	4,874.6	5,426.0	5,200.1	5,196.7	6,152.9
Provisions	136.9	103.4	96.5	152.2	117.4
Taxation	65.7	48.3	66.7	67.7	85.1
current	53.4	48.3	52.6	61.1	81.5
deferred	12.3	0.0	14.1	6.6	3.6
Other liabilities	274.9	235.0	214.1	95.3	108.2
Subordinated capital	353.4	353.4	378.4	384.4	458.7
Shareholders' equity	1,385.0	1,296.1	1,289.7	1,062.5	955.0
Minority interests	0.1	0.1	0.1	0.1	16.5
Income statement					
Net interest income	175.7	148.9	128.7	143.3	139.5
Net loan impairment and other credit risk provisions	0.9	–12.7	7.7	22.4	4.5
Share of profit in associates	– 8.1	0.7	0.4	0.6	0.5
Net fee income	383.7	385.5	404.0	346.2	347.6
Operating trading income	162.8	121.1	124.6	117.9	98.2
Administrative expenses	493.2	466.8	439.3	400.8	384.2
Other operating income/expenses	–8.7	12.2	9.6	11.6	3.5
Operating profit	211.3	214.3	220.3	196.4	200.6
Income from financial assets	9.1	–4.8	–0.6	–24.0	–50.0
Income from derivatives in the bank book	–1.0	–4.3	–4.2	5.1	–11.1
Other net income	0.3	5.4	–5.5	–13.8	–1.3
Pre-tax profit	219.7	210.6	210.0	163.7	138.2
Tax expenses	86.5	73.3	70.6	54.5	48.6
Net profit	133.2	137.3	139.4	109.2	89.6

* prior-year figures adjusted. The adjustments are explained in Note 18.