Interim Report
as at 30 June

2019

HSBC Trinkaus & Burkhardt Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01 to 30.06.2019	01.01 to 30.06.2018	Change in %
Income statement in €m			
Operating revenues*	385.2	361.5	6.6
Net loan impairment provision	29.2	−2.6	> 100.0
Administrative expenses	320.0	290.3	10.2
Pre-tax profit	47.2	83.6	−43.5
Tax expenses	16.3	28.6	−43.0
Net profit	30.9	55.0	−43.8
Ratios			
Cost efficiency ratio of usual business activity in %	80.7	78.2	–
Return on equity before tax in % (projected for the full year)	4.2	8.3	–
Net fee income in % of operating revenues	57.6	58.3	–
No. of employees at the reporting date	3,104.0	2,978.0	4.2
Share information			
Average number of shares in circulation in €m	34.1	34.1	0.0
Earnings per share in €	0.7	1.5	−53.6
Share price at the reporting date in €	52.0	67.0	−22.4
Market capitalisation at the reporting date in €m	1,773.2	2,284.7	−22.4

	30.06.2019	31.12.2018	Change in %
Balance sheet figures in €m			
Total assets	28,114.8	24,284.1	15.8
Shareholders' equity	2,429.0	2,273.1	6.9
Regulatory ratios			
Tier 1 capital in €m	2,033.2	1,817.0	11.9
Regulatory capital in €m	2,423.9	2,263.2	7.1
Risk-weighted assets in €m	16,666.8	16,953.3	−1.7
Tier 1 ratio in %	12.2	10.7	–
Equity ratio in %	14.5	13.4	–

* Operating revenues include net interest income, net fee income, net trading income and the balance of other operating income and expenses.

Contents

Dear Shareholders,

The Bank also felt the even stronger headwind in the German banking market in the first half of 2019. The clouds gathering over the German economy and the further worsening of the interest rate environment have left a mark on HSBC Germany's performance. Pre-tax profit fell to €47.2 million following €83.6 million in the first half of 2018. Impairments had a particularly noticeable negative impact on pre-tax profit. The fact that HSBC Germany—unlike many of its competitors—was able to increase its income by 6.6 % to €385.2 million in the first half of 2019 despite the difficult conditions shows that our business model is proving its worth and that our strategy is the right one. In response to the mounting challenges, the Bank has launched an efficiency programme to cut costs and to further improve processes and structures.

Despite the difficult environment, net fee income and net interest income rose in the first half of the year. However, development fell short of expectations. In the commission business, net income climbed to €221.7 million (previous year: €210.8 million). Net interest income, which is truly feeling the pinch of the low interest rate, rose to €113.5 million (previous year: €103.0 million). Loans and advances to customers rose by 4.7 % to €11.3 billion. However, net trading income fell slightly by €1.9 million to €40.7 million.

Following the reversal of net loan impairment provisions through profit or loss in the previous year, high individual impairments pushed net loan impairment provision requirements up by €31.8 million year on year to €29.2 million. Without these impairments, HSBC Germany would have reported pre-tax profit nearly on par with the previous year.

Administrative expenses rose by €29.7 million, from €290.3 million to €320.0 million. Staff expenses increased by €28.1 million year on year to stand at €196.9 million. The main reasons for this development were the extraordinary expenses in connection with the efficiency programme, followed by the increase in the number of employees to roughly 3,100 (30 June 2018: 2,978).

Among the individual divisions, Commercial Banking (CMB), the business with mid-market enterprises, generated the highest growth in income in percentage terms, with income up more than 12 % to €92.8 million in the first half of the year. At €62.9 million, net interest income in particular was up significantly compared to the previous year (€53.1 million). Unlike in 2018, the economic climate led to a significant increase in net loan impairment provision requirements in the reporting period. Despite the substantial rise in income, pre-tax profit in CMB fell to €7.1 million (previous year: €32.1 million) due to the higher allocations to net loan impairment provisions.

In the Global Banking & Markets segment (GB&M), income rose by €15.1 million, or more than 7 %, to €223.8 million. Net fee income increased by nearly €10 million to €146.1 million (previous year: €136.7 million). After €38.7 million in the previous year, net fee income from transactions involving securities and financial instruments climbed to €55.3 million. The further rise in fees related to the arrangement of business involving fixed income products and alternative investments made a particularly noticeable contribution to this development. The securities portfolio business also developed successfully. At €61.5 million, net income in this area was also significantly higher year on year (previous year: €54.1 million). HSBC Securities Services also achieved growth in the first half of 2019, with overall volume managed in the custody business up by just under €70 billion to €645.0 billion in the first six months of the current year. In fund administration, volume has increased by nearly 14.5 % to €240.6 billion since the end of 2018. At 31 million, the number of transactions in the securities settlement business was on par with the previous year.

However, the higher income in GB&M was offset by higher administrative expenses. The rise in costs resulted from higher staff expenses and the continued investments as part of the integration of securities processing for Commerzbank.

Despite the low interest rate environment, the Private Banking & Asset Management division succeeded in increasing its operating revenues slightly to €55.2 million (previous year: €54.4 million). A special focus was placed on expanding the transaction-related business involving private clients and special funds.

HSBC Germany's total assets stood at €28.1 billion as at mid-2019 following €24.3 billion as at 31 December 2018, corresponding to a rise of €3.8 billion, or 15.8 %. The Tier 1 capital ratio stood at 12.2 % (10.7 %), with a regulatory capital ratio of 14.5 % (13.4 %).

The Bank expects the income situation to improve in the second half of 2019. However, the improvement is unlikely to be enough to ensure pre-tax profit on par with the previous year. Alongside economic development and the associated increased risk of loan defaults, geopolitical risks—including Brexit—could have a negative impact on interest, foreign exchange and equity markets, thereby weighing down earnings.

On 1 May 2019, the Bank gained a new Executive Committee member in the person of Thomas Runge, who will be able to leverage his experience as COO of HSBC Germany. Thomas Runge joined HSBC Germany from Commerzbank, where his most recent responsibilities as a divisional board member included markets operations. After 18 years as CFO, Paul Hagen switched to the Supervisory Board upon conclusion of the Annual General Meeting on 7 June 2019. In his 32 years in total at HSBC Germany, he has played an instrumental role in the success and growth of the Bank. We would like to thank him for his dedication and achievements. He is succeeded as CFO by Dr Andreas Kamp, who has worked for HSBC since 2006 and is the Executive Committee member responsible for Finance.

We would like to thank you, our shareholders, for your trust and loyalty. 2019 remains challenging, and we still have a few tasks ahead of us. We want to continue our expansion and increase our income. In future, we will plan to focus more strongly on reducing costs. Through the efficiency programme now under way, we plan to pursue a path of lasting profit growth and achieve higher returns once again while consistently and systematically playing to our strengths. These strengths are the result of our employees' tireless hard work and dedication. We thank them most sincerely for their commitment.

Carola Gräfin v. Schmettow | **Dr Rudolf Apenbrink** | **Nicolo Salsano**

Fredun Mazaheri | **Dr Jan Wilmanns**

Interim Management Report

Economic Report

General economic and sector-related framework

The Eurozone's economy expanded by 0.4 % quarter on quarter in the first quarter of 2019 on the heels of weaker growth in previous quarters. German economic growth also picked up steam at the start of the year, rising to 0.4 %. The increase is expected to remain a temporary recovery, however, as growth was boosted by special factors in the first quarter. Those factors included a marked rise in new car registrations as a result of subsiding production bottlenecks due to the introduction of the WLTP emission test procedure. Apart from the quarterly fluctuations, the fundamental trend for the overall German economy remained subdued at best. Pessimism among companies is substantial, especially in the manufacturing sector, which comes as no surprise given the drop in incoming orders in the first half of the year. The economy is currently being driven primarily by the service sector, which is benefiting from the historically low unemployment rate, even though the expansion of the labour market in Germany is beginning to show the first signs of slowing down. All told, we expect GDP growth of just 0.5 % in 2019, with the Eurozone as a whole likely to grow by 1.0 %. For 2020, we expect Germany and the Eurozone to see growth of 1.1 %. Weaker growth rates should be expected in the event of a disorderly exit from the EU by the United Kingdom, a further escalation of the trade conflict between China and the US or the introduction of tariffs on automotive exports from the EU to the US.

Apart from the current growth risks, the ECB's inflation development remains problematic. The lack of lasting inflationary pressure is reflected in the low core inflation rate and in the decline in long-term inflationary expectations on capital markets. The ECB has already decided to offer the banking system a series of targeted longer-term refinancing operations (TLTRO III) with a maturity of two years from September of this year. We also expect the ECB to lower the deposit rate by 20 basis points to –0.60 % in September 2019. Furthermore, the ECB is likely to launch a new bond-buying programme in January 2020. The prospects of further monetary easing has pushed yields on ten-year Bundesanleihen (German government bonds, or "Bunds") to a record low. A lasting reversal of the trend on the fixed-income market is not on the horizon. In the US, the Federal Reserve Bank has already kicked off the discount rate cycle and lowered the Fed Funds Rate in July for the first time since late 2008. Out of concern for the weak global economy and the low inflationary pressure, the US central bank is likely to reduce the target range for the Fed Funds Rate by another 0.25 % to between 1.75 % and 2.0 %. While we still expect the US economy to expand by 2.4 % in 2019, GDP growth should fall to 1.7 % in 2020. The decline in growth momentum is attributable to the petering out of the positive effects associated with the tax cuts in early 2018. China has also switched to a more proactive approach to economic policy to mitigate the negative effects resulting from the weakening of global demand and the trade conflict with the US. Ultimately, the move should be able to prevent a hard landing for the economy and encourage GDP growth of 6.5 % and 6.3 % year on year in 2019 and 2020 respectively.

The implementation of the new regulatory requirements at the same time as weaker revenue potential and tougher competition in Germany is still presenting the financial sector with major challenges. The extremely low level of money market interest rates owing to the ECB's negative deposit rate in particular and the surplus liquidity provided by the central bank has led to a situation in which an interest margin in the deposit-taking business is no longer achievable at the HSBC Trinkaus & Burkhardt Group with its solid deposit base.

Business performance and situation

Profitability

The HSBC Trinkaus & Burkhardt Group recorded a pre-tax profit of €47.2 million in the first half of 2019 (previous year: €83.6 million). This corresponds to a significant decline of €36.4 million, or 43.5 %. This drop is primarily attributable to a substantial rise in risk provisioning requirements and higher staff expenses related to the efficiency programme launched in the first half of the year. Net profit amounted to €30.9 million and was therefore 43.8 % (or €24.1 million) lower than the previous-year figure of €55.0 million.

Business performance in the first half of 2019 was largely shaped by a continued high level of uncertainty on the markets. The near stagnation of the German economy is confronting many companies with real challenges, as reflected in a corresponding rise in risk provisioning requirements. At the same time, the pressure on the conditions both in the lending business and in services persists unabated, and competition remains intense. Negative interest rates punish banks with high a level of deposits and place a burden on margins. In addition, the low interest rate environment continues to have a negative impact, due in particular to the falling average returns in our liquidity portfolio. Until they lead to higher revenues in time, the continued major investments in client projects and modernising IT infrastructure will put pressure on the result in the current period as well.

In consultation with the HSBC Group, we have already launched an efficiency programme aimed at adapting cost growth to the weaker planned revenue growth so as to respond to these challenging economic conditions.

Changes in individual items of the income statement:

At €113.5 million, net interest income improved slightly compared to the previous year (€103.0 million) despite the burdensome low interest rate.

In the client lending business, improved interest income was recorded due to higher volumes—especially in syndicated loans—despite a slight decline in credit margins. On the other hand, interest income from financial assets declined again. In the current market environment, it was only possible to replace maturing bonds with bonds offering a comparable risk profile with a far lower coupon. Although we were able to work towards better margins in some areas of the deposit business, the low interest rate situation continued to represent a significant burden.

After net income in the amount of €2.6 million from the release of net loan impairment provisions in the first six months of the previous year, a net expense of €29.2 million was recorded in the reporting period. The net expense from the creation of net loan impairment provisions in the amount of €22.6 million in the reporting period (previous year: net income of €0.9 million) was attributable to a very small number of credit exposures with itemised valuation allowance. The net additions to collectively assessed impairments amounted to €6.6 million (previous year: net release of €1.7 million) as a result of the deterioration in the forecast for the macroeconomic environment relevant for the Bank. Our conservative orientation is unchanged in relation to the assessment of default risks. Against the backdrop of the German economy's near stagnation and the different levels of concentration within our lending portfolio, a small number of problem cases can lead to unscheduled individual impairments, as per the forecast report.

Despite the difficult market conditions, net fee income increased by €10.9 million, or 5.2 %, from €210.8 million to €221.7 million.

In the securities portfolio business, income rose year on year to €61.5 million (previous year: €54.1 million). The rise was mainly the result of higher income in the securities custody business. The number of client portfolios continued to rise.

Transactions with securities and other financial instruments saw even more substantial year-on-year growth, resulting in net fee income of €55.3 million (previous year: €38.7 million). The improvement in fees related to the arrangement of business involving fixed income products and to alternative investments made a material contribution to this development.

With competition intensity showing no signs of abating, net fee income from asset management amounted to €35.2 million in the first half of the year (previous year: €37.8 million). However, net fee income in the Private Banking & Asset Management segment increased in total (see Note 9, Customer Groups).

In the commission business with exchange rates, we recorded €31.5 million (previous year: €29.7 million), which corresponded to an increase of €1.8 million, or 6.1 %. This increase was due to a slightly higher year-on-year requirement on the part of our clients to hedge against exchange rate fluctuations.

Net fee income from the lending business stood at €11.8 million in the first half of the year and was therefore down only slightly year on year (previous year: €12.0 million).

At €10.8 million, net fee income from payments and the documentary business remained unchanged year on year.

In Capital Financing, we did not manage to match the excellent results of the two previous years. After the marked increase in net fee income from Capital Financing to €26.4 million in the previous year, we reported a significant decline in the figure to €8.1 million in the reporting period against the backdrop of subdued development in the M&A market throughout the sector in the first half of 2019 and in business with corporate financing transactions.

Net trading income fell slightly by €1.9 million to €40.7 million (previous year: €42.6 million).

At €22.3 million, the result from trading with and equity/index derivatives was significantly lower than the result of €29.3 million recorded in the same period in the previous year. The decline was attributable primarily to the year-on-year decrease in volatility on equity markets and the associated restraint on the part of clients.

In bonds, money market transactions and interest rate derivatives trading, the Bank generated income of €13.8 million in the current interest rate environment following €11.6 million in the previous year.

Foreign exchange trading increased by €2.8 million to €4.6 million (previous year: €1.8 million). Derivatives held in the banking book recorded a net loss of €0.1 million (previous year: €0.2 million).

All told, administrative expenses increased by €29.7 million, or 10.2 %, from €290.3 million to €320.0 million.

At €196.9 million, personnel expenses were €28.1 million higher year on year in the first half of 2019 (previous year: €168.8 million) due in particular to expenses in connection with the efficiency programme launched in the first half of 2019 and the provisional increase in the number of employees to 3,100 on average in the first half of 2019 (previous year: 2,931).

Other administrative expenses stood at €104.5 million and were down year on year (previous year: €110.4 million). Despite the higher bank levy compared to the previous year (up €1.0 million) and our investments in a modern IT infrastructure, we achieved cost savings in the reporting period. The decline was also attributable to the €5.8 million change in the reporting of expenses related to rental and lease agreements associated with the introduction of the new IFRS 16 accounting standard.

Depreciation and amortisation on property, plant and equipment and intangible assets stood at €18.6 million and were €7.5 million higher year on year. The significant rise is primarily attributable to the write-down of rights to use rented and leased assets for the first time in the reporting period.

Income from financial assets fell by €10.0 million year on year to €5.1 million (previous year: €15.1 million). The same period in the previous year contained the result of the transfer of a large promissory note loan in the amount of €10.4 million.

Net income from other financial assets requiring measurement at fair value through profit or loss stood at €6.2 million (previous year: net expense of €5.5 million). The income resulted in particular from lower interest rates and from credit spreads, which were lower year on year in some cases.

Other operating income amounted to €9.3 million (previous year: €5.1 million) and primarily included rental income from our property and income from client-related projects. Other net income was negative at €0.1 million (previous year: positive at €0.2 million).

Income tax expenditure in the financial year amounted to €16.3 million and was €12.3 million lower year on year, equating to a tax rate of 34.6 % following 34.2 % in the previous year.

The cost efficiency ratio stood at 80.7 % (previous year: 78.2 %).

Please refer to the "Customer Groups" section of the Notes for more information on the results of the individual groups.

The asset situation

Total assets rose by €3.8 billion compared to 31 December 2018 (€24.3 million) to €28.1 billion as of the balance sheet date.

Customer accounts remain the Bank's most important source of refinancing and amounted to €18.3 billion as of the reporting date (31 December 2018: €14.9 billion), which is around 65.0 % of the balance sheet total. We regard the size of these deposits 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 & Burkhardt AG is still the highest rated private commercial bank in Germany, with a "AA– (Rating Watch Negative)" Fitch rating.

The increase in the cash reserve by €3.7 billion to €7.4 billion as at 30 June 2019 related to the increase in customer accounts from €14.9 billion to €18.3 billion.

At €3.4 billion, deposits by banks increased slightly compared to 31 December 2018 (€3.3 billion).

Trading liabilities stood at €1.8 billion and remained around the same level as at 31 December 2018 (€1.8 billion). The negative market values of derivative financial instruments increased by €0.1 billion to €1.1 billion.

Provisions stood at €188.5 million and were up by €21.0 million compared to 31 December 2018. The rise related primarily to provisions for pensions and similar obligations and was attributable to a steep drop in interest rates. However, it was possible to compensate for part of this effect through the positive development of plan assets.

Subordinated capital fell from €580.5 million as at 31 December 2018 to €550.8 million due to the scheduled repayment of promissory note loans and subordinated bonds.

Shareholders' equity stood at €2,429.0 million and was 6.9 % higher than the previous-year value of €2,273.1 million. The Bank achieved a pre-tax return on equity of 4.2 %, which was significantly lower than in the previous year (8.3 %).

Share capital was €91.4 million, as in the previous year. Capital reserves remained unchanged at €720.9 million. Compared to 31 December 2018, Additional Tier 1 (AT 1) capital increased by €200 million to €435 million following the efforts to raise further Additional Tier 1 capital in the form of a deeply subordinated bearer bond in January 2019. The dividend for the previous year of €85.2 million was distributed in the second quarter. In addition to the distribution of dividends, a distribution of €13.3 million was made to the HSBC Group on Additional Tier 1 (AT1) capital. The valuation reserve for debt instruments measured at fair value recognised directly in equity amounted to €66.7 million and saw an increase of €41.5 million compared to the figure as at 31 December 2018, primarily on account of the current interest rate development. The reserve for remeasuring the net pension obligation fell by €15.6 million compared to 31 December 2018 to €–116.3 million. Further decreases in the base rates of interest for the measurement of pension obligations led to a decline in the amount of €–25.8 million that could not be compensated for through the €+10.2 million increase in the value of plan assets.

Loans and advances to banks of €1.6 billion corresponded to a slight increase of €0.1 billion compared to 31 December 2018.

Loans and advances to customers after net loan impairment provisioning increased by a further €0.6 billion from €10.7 billion to €11.3 billion. With a share of 40.0 % (31 December 2018: 44.3 %), they are the largest item on the assets side of the balance sheet.

The €0.5 billion decline in assets held for trading to €2.4 billion was largely due to equities and other non-fixed-income securities (€–0.2 billion) and bonds (€–0.2 billion).

At €1.2 billion, the positive market values from derivative financial instruments remained virtually unchanged.

Financial assets of €3.6 billion (31 December: €3.5 billion) represented a slight €0.1 billion rise. Most of the financial assets consist of listed bonds eligible for refinancing with central banks and serve as a liquidity cushion.

The €34.2 million rise in property, plant and equipment to €149.7 million related primarily to the capitalisation of rights to use leased assets pursuant to IFRS 16 (€35.8 million).

Intangible assets increased by €11.1 million to €80.3 million. This increase is due to our investments in the expansion of the securities processing capacities and in the modernisation of our core banking systems.

The financial position

The Group's risk positions to be backed by capital stood at €16,666.8 million as at 30 June 2019 (31 December 2018: €16,953.3 million), of which €14,523.5 million related to risk-weighted assets (31 December 2018: €14,729.2 million), €702.6 million to the market risk equivalent (31 December 2018: €787.0 million) and €1,440.7 million to operational risk (31 December 2018: €1,437.1 million). This results in a Tier 1 capital ratio of 12.2 % (31 December 2018: 10.7 %) and a regulatory capital ratio of 14.5 % (31 December 2018: 13.4 %).

The Bank borrowed a total of €450 million in the first TLTRO II operation, a total of €300 million in the second TLTRO II operation and a total of €800 million in the third TLTRO II to finance the targeted growth in lending volumes.

Since the Single Supervisory Mechanism (SSM) came into force in November 2013, there has been greater harmonisation of supervisory practice in Europe. Supervision is carried out directly or indirectly by the European Central Bank in close cooperation with the national supervisory authorities. HSBC Germany is still subject primarily to national banking supervision and has once again undergone a Supervisory Review and Evaluation Process (SREP). As a result of this process, BaFin has notified the Bank that it has to maintain an equity ratio of at least 10.5 %.

The leverage ratio measures the ratio between regulatory Tier 1 capital and the unweighted asset items on and off the balance sheet (including derivatives). The leverage ratio is to be reported to the supervisory authorities as an observation and published by the institutions. Following the revision of the CRR, the minimum leverage ratio has been set bindingly at 3 %, applicable for the first time two years after CRR II comes into force. As at 30 June 2019, the regulatory leverage ratio stood at 5.3 % (31 December 2018: 5.3 %).

The Bank maintains a strong and liquid balance sheet.

Outlook and Opportunities

The overall economic environment is cooling down, and other conditions will continue to put significant pressure on our profitability in 2019. These conditions include the extremely low level of money and capital market interest rates. The Bank's solid deposit base has incurred a significant loss in value due to the excess liquidity provided by the ECB. The anticipated interest rate cuts by the ECB will aggravate the situation. As long as we are unable to pass on the negative deposit interest rates in full to our clients, our net interest income will remain under considerable pressure. The client-induced deposit surplus, which has been one of the strengths of our balance sheet so far, will continue to lead to interest losses if the ECB does not raise the deposit rate to at least 0 %. Furthermore, other high-yield bonds in the Bank's liquidity portfolio which can only be replaced by bonds offering comparable credit quality with far lower or even negative yields have matured in previous years and will continue to mature in 2019. These factors are putting significant pressure on net interest income. These effects will lower growth from the rising lending volume and limit the increase in net interest income compared with the previous year.

Even if our clients use credit lines to a greater extent, we are not expecting the liquidity situation to deteriorate over the course of the year. The marked overfulfilment on average of the Liquidity Coverage Ratio requirements is likely to continue. The Bank has significant scope for refinancing with the ECB and corresponding funding as a result of its participation in the Targeted Longer-Term Refinancing Operations (TLTRO).

The Bank's capital base was strengthened in December 2018 by it raising Additional Tier 2 capital. Further Additional Tier 1 capital was raised in January 2019. This confirms the potential for strengthening capital through the HSBC Group, if necessary. Against the backdrop of the further growth planned, we are assuming an increase in the risk-weighted assets in the client business during the year.

The Bank is involved intensively in the preparations the HSBC Group is making for Brexit. The most important goal is to ensure that all clients are served reliably with a consistently high service level and can continue their banking activities without any problems. We are advising our clients intensively. However, there is still considerable uncertainty at present, which entails a high potential for risk with regard to the volume of business with clients.

The Bank will continue to focus on the further expansion of its market position, particularly in Corporate Banking, in accordance with our earnings-oriented growth strategy. We also plan to further expand the Institutional Banking and Global Markets business. The more intense competitive situation in the lending business is making the client lending business far less attractive with the combination of long loan periods required in the market, less stringent loan terms and lower margins. We will therefore manage the growth in lending very much according to value-oriented standards and strive for sufficiently large additional business.

We are expecting a single-digit percentage increase in net revenues in our base scenario for 2019 (which does not include the negative impact of Brexit). Growth is expected to be supported by all business divisions. We expect a slight increase again in net fee income as a result of increased volume in the HSBC Securities Services business and an improvement in the Institutional Sales business.

Expenses will grow at a rate of more than 5 % in 2019, as we have decided to continue significant projects to improve the IT infrastructure which will go on for several years and also require comprehensive external support in addition to a large number of project staff at the Bank. Furthermore, client-oriented projects are already under way which will lead to higher revenues only with a time delay, but are already putting direct pressure on the cost base in 2019. We will outsource further tasks to the global service centres of the HSBC Group to realise cost savings and integrate the Bank more strongly into the HSBC Group's process chains. We expect the Bank's cost efficiency ratio to be above 70 % again due to the pressure on margins and the highly burdensome interest income situation, as well as the number and size of the projects.

An expansion strategy means greater opportunities, but also higher risks. This applies above all to the expansion of the lending portfolio with SME corporate clients. Despite the weakening economy, stricter sector differentiation makes these risks appear to be acceptable. The anticipated increase in risk provisioning requirements compared to the favourable developments in 2018 already had an impact in the first half of the year. Further impairments in the second half of the year therefore cannot be ruled out. The expansion of the target ratings in the corporate banking business will also involve higher collectively assessed impairments in addition to stronger capital backing with volumes rising. As our portfolio is characterised by differing levels of concentration, even a small number of problem cases can lead to significant individual impairments, which could put pressure on the result beyond what was planned.

HSBC Germany expects the income situation to improve in the second half of 2019. However, the improvement is unlikely to be enough to ensure pre-tax profit on par with the previous year. Alongside economic development and the associated higher risk of loan defaults, geopolitical risks—including Brexit—could have a negative impact on interest, foreign exchange and equity markets, thereby weighing down earnings.

We are moderately optimistic in our base scenario for the rest of 2019 and are happy to rise to the challenges presented by the German market to meet the goals we have set ourselves for business growth and the comprehensive projects which have been started to modernise the Bank.

Risk Report

Risk management at the HSBC Trinkaus & Burkhardt Group

Principles of risk management policy

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

In accordance with these risk principles, we are ready to actively enter into market and counterparty credit risk. We want to minimise operational risks if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out. Avoiding legal and compliance risks is one of the basic approaches with respect to our business policy. We avoid liquidity risks as far as possible and are prepared to accept lower profits as a consequence. Strategic risk, which can arise among other things from changes in laws and regulations, the competitive situation and macroeconomic framework data, as well as market conditions, is taken into consideration when determining our business strategy as part of the planning process. Pension risks arise for the HSBC Trinkaus & Burkhardt Group from commitments based on the company pension scheme. These risks are taken in a targeted manner, as the company pension scheme is an attractive component of employee compensation that helps retain qualified personnel at the Bank.

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

The risk management and risk reporting procedures described in the latest consolidated financial statements still correspond to the current conditions.

Internal Capital Adequacy Assessment Process

We continue to adjust the calculation of the economic capital requirement to meet the growing challenges we face. Risk-bearing capacity is analysed comprehensively on a quarterly basis and constantly updated, and the underlying methods are discussed in detail by the Capital Steering Committee. The minutes of the Capital Steering Committee are forwarded to the overall Management Board and dealt with there. ICAAP is also discussed regularly in the Risk Committee of the Supervisory Board.

in €m	**30.06.2019**	**31.12.2018**
Risk cover funds	**2,554.6**	**2,354.5**
minus regulatory capital requirement	–1,776.9	–1,654.7
Unallocated risk cover funds	**777.7**	**699.8**
Risks		
Credit risk	161.0	170.3
Market risk (incl. illiquid investment risk)	81.9	82.4
Liquidity risk	10.3	18.6
Operational risk	67.6	68.0
Pension risk	1.5	1.5
Business risk	39.3	32.2
Economic capital requirement	**361.6**	**373.0**
Utilisation of unallocated risk cover funds (in %)	**46.5**	**53.3**

Risk categories

Counterparty credit risks

(a) Maximum default risk

The maximum default risk for financial instruments including loan commitments and financial guarantees as at 30 June 2019 is shown in the following table. The maximum default risk on a specific reporting date corresponds to the book value of the financial assets on the balance sheet, including the reported positive market values of derivative financial instruments on that date. Exchange-traded derivatives are not exposed to default risk on account of the margin system, but have been included in the following table in this section. Collateral received and other credit improvements are not taken into account to mitigate risk in this presentation.

Trading assets, positive market values from derivative financial instruments and financial assets requiring measurement at fair value through profit or loss are not subject to the IFRS 9 impairment provisions. Collateral arises in connection with derivatives, which we show in the Notes "Deposits by Banks" and "Customer Accounts".

We report loans and advances to banks as well as loans and advances to customers in the Risk Report before the deduction of net loan impairment provisions.

Netting agreements or agreements concerning guarantees for market values in the form of collateral are concluded specifically in the derivatives business. With netting agreements, offsetting contracts with the same customer or counterparty can be netted against each other under certain conditions. These agreements significantly reduce the maximum default risk shown above.

	30.06.2019		31.12.2018	
	in €m	in %	in €m	in %
Loans and advances	**12,870.4**	**38.0**	**12,241.2**	**36.3**
to banks	1,558.8	4.6	1,460.7	4.3
to customers	11,311.6	33.4	10,780.5	32.0
Trading assets	**2,399.0**	**7.0**	**2,876.7**	**8.5**
Bonds and other fixed-income securities	1,030.6	3.0	1,206.5	3.6
Equities and other non-fixed-income securities	476.6	1.4	706.6	2.0
Tradable receivables	891.8	2.6	963.6	2.9
Positive market values of derivative financial instruments	**1,248.8**	**3.7**	**1,265.6**	**3.7**
Exchange-traded derivatives	153.0	0.5	248.7	0.7
OTC derivatives	1,094.5	3.2	1,016.8	3.0
Derivatives in hedging relationships	1.2	0.0	0.0	0.0
Derivatives held in the banking book	0.1	0.0	0.1	0.0
Financial assets	**3,580.1**	**10.6**	**3,532.1**	**10.5**
Bonds and other fixed-income securities	3,467.0	10.2	3,418.1	10.1
Promissory note loans	89.3	0.3	90.3	0.3
Investments	23.8	0.1	23.7	0.1
Other financial assets that must be measured at fair value through profit or loss	**137.7**	**0.3**	**192.2**	**0.6**
Bonds and other fixed-income securities	77.7	0.2	88.0	0.3
Hybrid financial instruments	34.5	0.1	60.0	0.2
Investment certificates	11.2	0.0	21.3	0.1
Equities and other non-fixed-income securities	0.0	0.0	8.2	0.0
Investments	14.3	0.0	14.7	0.0
Contingent liabilities	**2,897.3**	**8.7**	**2,916.3**	**8.8**
Loan commitments	**10,738.9**	**31.7**	**10,653.8**	**31.6**
Total	**33,872.2**	**100.0**	**33,677.9**	**100.0**

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

	30.06.2019		31.12.2018	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	22,485.1	66.4	22,069.4	65.5
Banks and financial institutions	7,916.9	23.4	7,662.1	22.8
Public sector	3,164.2	9.3	3,617.6	10.7
Employed private individuals	306.0	0.9	328.8	1.0
Total	**33,872.2**	**100.0**	**33,677.9**	**100.0**

The breakdown by sector shows that the maximum default risk exists essentially vis-à-vis companies and self-employed professionals on the one hand and banking organisations on the other.

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

	30.06.2019		31.12.2018	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	22,841.3	67.4	22,282.6	66.2
Other EU (plus Norway and Switzerland)	8,747.9	25.8	8,684.6	25.8
North America	1,034.4	3.1	1,222.6	3.6
Asia	603.8	1.8	768.1	2.3
Africa	435.8	1.3	438.1	1.3
South America	105.9	0.3	99.7	0.3
Rest of Europe	70.7	0.2	146.9	0.4
Oceania	32.4	0.1	35.3	0.1
Total	**33,872.2**	**100.0**	**33,677.9**	**100.0**

(b) Credit quality of the financial instruments

The following overviews show the credit quality of the financial instruments that are subject to the IFRS 9 impairment provisions, broken down by the three levels and the related net loan impairment provisions. In addition, the credit quality of the debt instruments at fair value without effect on the income statement is shown on the respective reporting dates.

Purchased or originated credit-impaired financial instruments (POCI) were not included in the reporting period.

Financial instruments measured at amortised cost:

30.06.2019 in €m	Gross book value/nominal amount						Net loan impairment provision and other credit risk provisions	Net book value/ nominal amount
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**		
Loans and advances to banks	1,286.9	149.8	122.1	0.0	0.0	1,558.8	0.1	1,558.7
Level 1	1,286.9	149.8	116.4	0.0	0.0	1,553.1	0.1	1,553.0
Level 2	0.0	0.0	5.7	0.0	0.0	5.7	0.0	5.7
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	3,505.3	3,874.3	3,462.1	238.1	231.8	11,311.6	57.1	11,254.5
Level 1	3,505.3	3,818.8	2,818.4	104.8	0.0	10,247.3	2.1	10,245.2
Level 2	0.0	55.5	643.7	133.3	0.0	832.5	4.9	827.6
Level 3	0.0	0.0	0.0	0.0	231.8	231.8	50.1	181.7
Contingent liabilities	1,029.2	997.0	793.8	71.6	5.7	2,897.3	4.7	2,892.6
Level 1	1,029.2	964.4	492.5	43.3	0.0	2,529.4	0.3	2,529.1
Level 2	0.0	32.6	301.3	28.3	0.0	362.2	0.1	362.1
Level 3	0.0	0.0	0.0	0.0	5.7	5.7	4.3	1.4
Loan commitments	5,070.4	3,874.5	1,705.5	76.6	11.9	10,738.9	2.3	10,736.6
Level 1	5,070.4	3,591.6	1,171.0	21.4	0.0	9,854.4	0.8	9,853.6
Level 2	0.0	282.9	534.5	55.2	0.0	872.6	1.4	871.2
Level 3	0.0	0.0	0.0	0.0	11.9	11.9	0.1	11.8
Total	**10,891.8**	**8,895.6**	**6,083.5**	**386.3**	**249.4**	**26,506.6**	**64.2**	**26,442.4**

31.12.2018								
in €m	**Gross book value/nominal amount**						**Net loan impairment provision and other credit risk provisions**	**Net book value/ nominal amount**
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**		
Loans and advances to banks	1,353.5	36.3	70.0	0.9	0.0	1,460.7	0.0	1,460.7
Level 1	1,353.5	36.3	69.5	0.0	0.0	1,459.3	0.0	1,459.3
Level 2	0.0	0.0	0.5	0.9	0.0	1.4	0.0	1.4
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	3,231.1	3,866.5	3,281.9	199.3	201.7	10,780.5	30.7	10,749.8
Level 1	3,231.1	3,850.6	2,863.1	63.8	0.0	10,008.6	1.1	10,007.5
Level 2	0.0	15.9	418.8	135.5	0.0	570.2	1.9	568.3
Level 3	0.0	0.0	0.0	0.0	201.7	201.7	27.7	174.0
Contingent liabilities	1,127.6	991.1	752.5	34.4	10.7	2,916.3	4.5	2,911.8
Level 1	1,127.6	966.9	553.8	9.0	0.0	2,657.3	0.1	2,657.2
Level 2	0.0	24.2	198.7	25.4	0.0	248.3	0.1	248.2
Level 3	0.0	0.0	0.0	0.0	10.7	10.7	4.3	6.4
Loan commitments	4,979.5	3,993.9	1,606.0	47.0	27.4	10,653.8	1.4	10,652.4
Level 1	4,979.5	3,929.5	1,180.8	0.3	0.0	10,090.1	0.5	10,089.6
Level 2	0.0	64.4	425.2	46.7	0.0	536.3	0.7	535.6
Level 3	0.0	0.0	0.0	0.0	27.4	27.4	0.2	27.2
Total	**10,691.7**	**8,887.8**	**5,710.4**	**281.6**	**239.8**	**25,811.3**	**36.6**	**25,774.7**

Debt instruments at fair value without effect on income:

30.06.2019							
in €m	**Fair value**						**Net loan impairment provision and other credit risk provisions**
Balance sheet item/level	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**	
Financial assets	3,080.5	341.1	133.0	1.7	0.0	3,556.3	2.3
Level 1	3,053.7	326.3	116.4	0.0	0.0	3,496.4	0.5
Level 2	26.8	14.8	16.6	1.7	0.0	59.9	1.8
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

31.12.2018

in €m	Fair value						Net loan impairment provision and other credit risk provisions
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total	
Financial assets	2,949.0	448.3	111.1	0.0	0.0	3,508.4	0.9
Level 1	2,941.0	443.2	96.5	0.0	0.0	3,480.7	0.4
Level 2	8.0	5.1	14.6	0.0	0.0	27.7	0.5
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Debt instruments measured at fair value through profit or loss:

30.06.2019

in €m	Fair value					
Balance sheet item	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total
Trading assets	1,788.1	20.9	113.4	0.0	0.0	1,922.4
Other financial assets that must be measured at fair value through profit or loss	3.4	41.1	33.2	0.0	0.0	77.7

31.12.2018

in €m	Fair value					
Balance sheet item	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total
Trading assets	1,910.7	9.9	249.5	0.0	0.0	2,170.1
Other financial assets mandatorily measured at fair value through profit or loss	3.7	46.6	37.7	0.0	0.0	88.0

(c) Development of net loan impairment and other credit risk provisions

Net loan impairment and other credit risk provisions compared with the gross book values and nominal amounts of the loan exposure as at 30 June 2019 are shown in the following table taking into account the allocation to the levels. Please see the Note "Net Loan Impairment and Other Credit Risk Provisions" for information on the evolution of the net loan impairment and other credit risk provisions.

30.06.2019	Gross book value/nominal amount in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	1,553.1	5.7	0.0	1,558.8	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Loans and advances to customers	10,247.3	832.5	231.8	11,311.6	2.1	4.9	50.1	57.1	0.0	0.6	21.6	0.5
Contingent liabilities	2,529.4	362.2	5.7	2,897.3	0.3	0.1	4.3	4.7	0.0	0.0	75.4	0.2
Loan commitments	9,854.4	872.6	11.9	10,738.9	0.8	1.4	0.1	2.3	0.0	0.2	0.8	0.0
Total	**24,184.2**	**2,073.0**	**249.4**	**26,506.6**	**3.3**	**6.4**	**54.5**	**64.2**	**0.0**	**0.3**	**21.9**	**0.2**

31.12.2018	Gross book value/nominal amount in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	1,459.3	1.4	0.0	1,460.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	10,008.6	570.2	201.7	10,780.5	1.1	1.9	27.7	30.7	0.0	0.3	13.7	0.3
Contingent liabilities	2,657.3	248.3	10.7	2,916.3	0.1	0.1	4.3	4.5	0.0	0.0	40.2	0.2
Loan commitments	10,090.1	536.3	27.4	10,653.8	0.5	0.7	0.2	1.4	0.0	0.1	0.7	0.0
Total	**24,215.3**	**1,356.2**	**239.8**	**25,811.3**	**1.7**	**2.7**	**32.2**	**36.6**	**0.0**	**0.2**	**13.4**	**0.1**

30.06.2019	Fair value in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,496.4	59.9	0.0	3,556.3	0.5	1.8	0.0	2.3	0.0	3.0	0.0	0.1

31.12.2018	Fair value in €m				Net loan impairment provision and other credit risk provisions in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,480.7	27.7	0.0	3,508.4	0.4	0.5	0.0	0.9	0.0	1.8	0.0	0.0

Calculating expected credit losses is naturally a subsection of accounting policies which is subject to significant estimation uncertainties and discretionary decisions. As a result, considerable additional risk provisioning requirements can be expected if the moderately good forecasts currently still in place for the German economy deteriorate significantly.

Market risks

The Group's market risks are broken down by risk category at trading book and banking book level in the following table:

in €m		2019		
		30.06	**Maximum**	**Average**
Trading book	Interest rate risk	0.5	0.7	0.6
	Currency risk	0.0	0.1	0.1
	Equity/index risk	0.6	0.9	0.6
	Credit spread risk	0.8	1.5	1.2
	Commodities risk	0.1	0.1	0.0
	Diversification	0.9	1.5	1.1
	Overall risk	**1.1**	**1.6**	**1.3**
Banking book	Interest rate risk	5.5	6.9	6.0
	Currency risk	0.1	0.1	0.1
	Equity/index risk	1.6	2.1	1.0
	Credit spread risk	1.5	2.3	2.1
	Commodities risk	(–)	(–)	(–)
	Diversification	2.7	4.1	3.1
	Overall risk	**6.0**	**6.7**	**6.1**

in €m		2018		
		31.12	**Maximum**	**Average**
Trading book	Interest rate risk	0.4	1.0	0.7
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.5	1.1	0.6
	Credit spread risk	1.4	1.8	1.5
	Commodities risk	0.0	0.2	0.0
	Diversification	1.1	1.6	1.3
	Overall risk	**1.3**	**2.0**	**1.6**
Banking book	Interest rate risk	4.5	4.9	4.5
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.6	0.8	0.6
	Credit spread risk	2.3	2.6	2.3
	Commodities risk	(–)	(–)	(–)
	Diversification	3.0	3.4	2.8
	Overall risk	**4.5**	**5.2**	**4.7**

The market risk potential is calculated for all market risk categories using a standardised internal model, which we are constantly developing further. We use a value-at-risk approach to measure market risks in our trading book under normal market conditions.

We understand value-at-risk to be the potential loss that will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Taking correlations into consideration, the overall market risk potential is lower than the sum of the risks per risk category.

No negative back-testing anomalies were found in the first half of 2019.

Liquidity risks

(a) Definition

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

(b) Internal liquidity risk management and liquidity cushion

Our internal liquidity risk management is based consistently on two central regulatory management ratios: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Internal liquidity management is enhanced by information about the largest investors and the greatest investments in liquid securities, and through prices for refinancing sources (additional liquidity monitoring metrics (ALMM)). The regulatory management ratios are supplemented by internal analyses such as maturity concentration. The expected development of the ratios is observed continuously in the Bank's rolling liquidity forecasts. The Bank's liquidity transfer pricing is also based on the regulatory logic of the LCR and the NSFR.

Similarly, the liquidity cushion is determined based on the regulatory requirements of the LCR and the NSFR. The inflows and outflows to be forecast therefore correspond to the net outflow of funds of the stress scenario implicitly modelled in the LCR, which shows both idiosyncratic and systemic stress elements. The net outflow of funds modelled in this stress scenario of the LCR is offset by the liquidity cushion. This consists of cash and central bank balances as well as the High Quality Liquid Asset (HQLA) Position according to the LCR and allows for the same (differing) mark-downs on the non-pledged market value. The liquidity cushion therefore consists to a large extent of government and corporate bonds and Pfandbriefe, as well as highly liquid equities, all of which are eligible for central bank borrowing with a few exceptions. Correspondingly, the net balance of the inflows and outflows after the realisation of the liquidity cushion would clearly be positive. The Bank regularly makes sure whether the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be accessed and realised at any time. As at 30 June 2019 we had deposited assets with a collateral value of €1.04 billion at the Bundesbank (31 December 2018: €1.32 billion), giving us potential access to central bank loans in this amount. Since January 2018, the minimum regulatory LCR has been 100 %

The LCR is a ratio used by banks for evaluating short-term liquidity risk and puts the portfolio of highly liquid financial assets in relation to the overall net outflow of funds in the next 30 days in a stress scenario defined by the regulatory authorities. The LCR determined for internal risk management came to 139.1 % as at 30 June 2019 (31 December 2018: 111.4 %).

	Liquidity coverage ratio	
in %	**30.06.2019**	**31.12.2018**
As at the balance sheet date	139.1	111.4
Minimum	122.1	111.4
Maximum	139.1	165.4
Average	130.2	141.4

Overall picture of the risk situation

The overall picture of the Bank's risk situation remains balanced and is in keeping with our risk-bearing capacity.

Düsseldorf, 27 August 2019

The Management Board

Carola Gräfin v. Schmettow | **Dr Rudolf Apenbrink** | **Nicolo Salsano**

Fredun Mazaheri | **Dr Jan Wilmanns**

Condensed Consolidated Interim Financial Statements

Consolidated Balance Sheet

Assets in €m	(Notes)	30.06.2019	31.12.2018	Change	
				in €m	in %
Cash reserve		7,404.0	3,750.5	3,653.5	97.4
Loans and advances to banks	(10), (23)	1,558.7	1,460.7	98.0	6.7
Loans and advances to customers	(11), (23)	11,254.5	10,749.8	504.7	4.7
of which pledged as collateral		2,210.6	1,714.9	495.7	28.9
Trading assets	(12)	2,399.0	2,876.7	−477.7	−16.6
of which pledged as collateral		73.6	93.3	−19.7	−21.1
Positive market values of derivative financial instruments	(13)	1,248.8	1,265.6	−16.8	−1.3
Other financial assets requiring measurement at fair value through profit or loss	(14)	137.7	192.2	−54.5	−28.4
Financial assets	(15)	3,580.1	3,532.1	48.0	1.4
of which pledged as collateral		593.2	850.9	−257.7	−30.3
Property, plant and equipment	(16)	149.7	115.5	34.2	29.6
Intangible assets	(16)	80.3	69.2	11.1	16.0
Taxation recoverable		103.2	91.9	11.3	12.3
of which current		38.2	23.7	14.5	61.2
of which deferred		65.0	68.2	−3.2	−4.7
Other assets	(17)	68.6	179.9	−111.3	−61.9
Non-current assets held for sale	(17)	130.2	0.0	130.2	> 100
Total assets		**28,114.8**	**24,284.1**	**3,830.7**	**15.8**

Liabilities in €m	(Notes)	30.06.2019	31.12.2018	Change	
				in €m	in %
Deposits by banks	(18)	3,411.3	3,318.9	92.4	2.8
Customer accounts	(19)	18,288.6	14,861.4	3,427.2	23.1
Trading liabilities	(20)	1,820.7	1,825.9	–5.2	–0.3
Negative market values of derivative financial instruments	(21)	1,101.2	978.7	122.5	12.5
Provisions	(22), (23)	188.5	167.5	21.0	12.5
Taxation		25.4	31.1	–5.7	–18.3
of which current		25.4	31.1	–5.7	–18.3
of which deferred		0.0	0.0	0.0	–
Other liabilities		299.3	247.0	52.3	21.2
Subordinated capital		550.8	580.5	–29.7	–5.1
Shareholders' equity		2,429.0	2,273.1	155.9	6.9
Share capital		91.4	91.4	0.0	0.0
Capital reserve		720.9	720.9	0.0	0.0
Additional Tier 1 capital		435.0	235.0	200.0	85.1
Retained earnings		1,226.6	1,294.2	–67.6	–5.2
Valuation reserve for debt instruments measured at fair value with no effect on income (IFRS 9)		66.7	25.2	41.5	> 100
Valuation reserve for equity instruments measured at fair value with no effect on income (IFRS 9)		6.7	6.6	0.1	1.5
Valuation reserve for the remeasurement of the net pension obligation		–116.3	–100.7	–15.6	15.5
Valuation reserve from currency conversion		–2.1	0.4	–2.5	> 100
Total before non-controlling interests		2,428.9	2,273.0	155.9	6.9
Non-controlling interests		0.1	0.1	0.0	0.0
Total liabilities		**28,114.8**	**24,284.1**	**3,830.7**	**15.8**

Consolidated Statement of Comprehensive Income

Consolidated Income Statement

in €m	(Notes)	01.01 to 30.06.2019	01.01 to 30.06.2018	Change	
				in €m	in %
Interest income from financial assets measured at amortised cost and at fair value with no effect on income		165.9	143.7	22.2	15.4
Interest income from other financial assets measured at fair value through profit or loss		3.1	3.9	–0.8	–20.5
Interest income*		169.0	147.6	21.4	14.5
Interest expense*		55.5	44.6	10.9	24.4
Net interest income	(1)	113.5	103.0	10.5	10.2
Net loan impairment provisions in the lending and securities business	(2)	29.2	–2.6	31.8	> 100.0
Fee income		324.7	311.9	12.8	4.1
Fee and commission expenses		103.0	101.1	1.9	1.9
Net fee income	(3)	221.7	210.8	10.9	5.2
Net trading income	(4)	40.7	42.6	–1.9	–4.5
Net profit from other financial assets mandatorily measured at fair value through profit or loss	(5)	6.2	–5.5	11.7	> 100.0
Gains and losses from the disposal of financial assets measured at amortised cost		0.0	0.0	0.0	0.0
Income from financial assets	(7)	5.1	15.1	–10.0	–66.2
Administrative expenses	(6)	320.0	290.3	29.7	10.2
Net other income	(8)	9.2	5.3	3.9	73.6
Pre-tax profit		47.2	83.6	–36.4	–43.5
Tax expenses		16.3	28.6	–12.3	–43.0
Net profit		**30.9**	**55.0**	**–24.1**	**–43.8**
Consolidated profit/loss attributable to minority shareholders		0.0	0.0	0.0	0.0
Consolidated profit/loss attributable to HSBC Trinkaus & Burkhardt shareholders		30.9	55.0	–24.1	–43.8

* Interest from hedge accounting is reported on a net basis in line with the market standard, resulting in a reduction in interest income and expense of €6.2 million respectively in the previous year.

Earnings per share (€)	**01.01 to 30.06.2019**	**01.01 to 30.06.2018**
Undiluted	0.69	1.49
Diluted	0.69	1.49
Average number of shares in circulation in million	**34.1**	**34.1**

Reconciliation from net income to comprehensive income

in €m	**01.01 to 30.06.2019**	**01.01 to 30.06.2018**
Net profit	30.9	55.0
Gains/losses after tax reclassified in the income statement	39.0	−27.5
of which from debt instruments measured at fair value with no effect on income	41.5	−26.8
of which from currency conversion	−2.5	−0.7
Gains/losses after tax not reclassified in the income statement	−15.5	−6.4
of which from equity instruments measured at fair value with no effect on income	0.1	0.3
of which from the remeasurement of the net pension obligation	−15.6	−6.7
Other income for the period	23.5	−33.9
Comprehensive income	**54.4**	**21.1**
Attributable to:		
minority shareholders	0.0	0.0
HSBC Trinkaus & Burkhardt shareholders	54.4	21.1

Consolidated Statement of Changes in Equity

in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	Valuation reserve					Consolidated shareholders' equity
					for financial instruments (IAS 39)	for debt instruments measured at fair value with no effect on income (IFRS 9)	for equity instruments measured at fair value with no effect on income (IFRS 9)	for the remeasurement of the net pension obligation	from currency conversion	
As at 31.12.2017	**91.4**	**720.9**	**235.0**	**1,257.5**	**79.2**	**0.0**	**0.0**	**−89.1**	**1.5**	**2,296.4**
Adjustments resulting from the initial application of IFRS 9				19.5	−79.2	62.9	7.3			10.5
As at 01.01.2018	**91.4**	**720.9**	**235.0**	**1,277.0**	**0.0**	**62.9**	**7.3**	**−89.1**	**1.5**	**2,306.9**
Distributed profit				−98.5**						−98.5
Addition from net profit for the year				55.0						55.0
Capital increase										0.0
Other income for the period						−26.8	0.3	−6.7	−0.7	−33.9
Other changes										0.0
As at 30.06.2018	**91.4**	**720.9**	**235.0**	**1,233.5**	**0.0**	**36.1**	**7.6**	**−95.8**	**0.8**	**2,229.5**

in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	Valuation reserve				Total before non-controlling interests	Non-controlling interests	Total including non-controlling interests
					for debt instruments measured at fair value with no effect on income	for equity instruments measured at fair value with no effect on income	for the remeasurement of the net pension obligation	from currency conversion			
As at 31.12.2018	**91.4**	**720.9**	**235.0**	**1,294.2**	**25.2**	**6.6**	**−100.7**	**0.4**	**2,273.0**	**0.1**	**2,273.1**
Distributed profit				−98.5**					−98.5		−98.5
Addition				30.9					30.9		30.9
Capital increase			200.0						200.0		200.0
Other income for the period					41.5	0.1	−15.6	−2.5	23.5		23.5
Other changes											0.0
As at 30.06.2019	**91.4**	**720.9**	**435.0**	**1,226.6**	**66.7**	**6.7**	**−116.3**	**−2.1**	**2,428.9**	**0.1**	**2,429.0**

* incl. consolidated profit available for distribution
** incl. distribution on Additional Tier 1 capital of €13.3 million

Condensed Consolidated Cash Flow Statement

in €m	2019	2018
Cash and cash equivalents as at 01.01	**3,750.5**	**3,679.3**
Cash flow from operating activities	3,612.0	3,381.7
Cash flow from investing activities	–21.5	–31.5
Cash flow from financing activities	63.0	–98.5
Cash and cash equivalents as at 30.06	**7,404.0**	**6,931.0**

Selected Notes to the Condensed Consolidated Interim Financial Statements

This Interim Report for the HSBC Trinkaus & Burkhardt Group as at 30 June 2019 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. The report takes particular account of the requirements of IAS 34 relating to interim financial reporting. Furthermore, the report satisfies the requirements of a half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). No review of the Interim Report was carried out by external auditors.

When drawing up this Interim Report, including the comparable figures for the previous-year periods, we generally applied the same accounting, valuation and consolidation methods as in the consolidated financial statements as at 31 December 2018. However, we also incorporated the following changes resulting from the mandatory application as at 1 January 2019 of new provisions for reporting leases (IFRS 16) and accounting for uncertainty over income tax treatments (IFRIC 23), as well as changes to the further accounting standards stated below.

The scope of consolidation has not changed compared to the consolidated financial statements as at 31 December 2018.

The condensed consolidated interim financial statements as at 30 June 2019 should be read in connection with the annual financial statements of the HSBC Trinkaus & Burkhardt Group as at 31 December 2018.

Adjustments to accounting methods in the presented reporting periods

The IFRS 16 accounting standard deals with lease accounting and replaced IAS 17 as well as the associated interpretations with effect from 1 January 2019. According to the new provisions, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments at the same time. In an approach similar to the previous provisions under IAS 17, the lessor is required to classify the leases as financing or operating leases and recognise them accordingly. In accordance with the requirements of IFRS 16, we have applied this standard at the point of initial application, 1 January 2019. We have exercised our right to present the effects of the initial application of IFRS 16 separately instead of adjusting the previous year's figures. As a result, the accounting and measurement methods presented in the consolidated financial statements as at 31 December 2018 continue to apply to leases. The accounting and measurement methods used to recognise leases from 1 January 2019 are presented below.

Other standards and interpretations that became mandatory in the EU from 1 January 2019 were taken into consideration in the preparation of the Interim Report and did not have any effect on the HSBC Trinkaus & Burkhardt consolidated financial statements. This concerns IFRIC 23 "Uncertainty over Income Tax Treatments"; the amendments to IFRS 9 "Financial Instruments"—Prepayment Features with Negative Compensation; the amendments to IAS 28 "Investments in Associates"—long-term interests in associates; the amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement; and the annual improvements to IFRS (2015–2017 cycle) regarding the amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

Leasing

IFRS 16 is applicable for leases—contractual agreements by way of which a lessor grants a lessee the right to use an identified asset for a defined period of time and the lessor receives consideration in return from the lessee. A right of use to a leased asset exists if the lessee is entitled to make decisions regarding the use of the leased asset and is generally the recipient of the full economic benefit from the leased asset during the term of the lease agreement.

Pursuant to IFRS 16, lessees must recognise a right-of-use asset and a lease liability in the balance sheet upon the conclusion of a lease.

The amount of the lease liability upon initial recognition corresponds to the present value of the lease payments not yet made at that point in time. The amount is to be discounted using the underlying interest rate for the lease agreement. If the underlying interest rate for the lease agreement cannot be determined, the lessee's incremental borrowing rate should be used for discounting. Along with the non-cancellable period, periods resulting from the exercise of options (such as extension options) that have been deemed to be reasonably certain must be taken into consideration in the term of a lease agreement.

The right-of-use asset is to be measured at cost upon initial recognition. The cost comprises the amount of the initial measurement of the lease liability and the initial direct costs incurred by the lessee. Any lease incentives, any lease payments made before or at the start of the term of the lease agreement, and the estimated cost of restoration and similar obligations must also be taken into account.

Within the HSBC Trinkaus & Burkhardt Group, we have exercised the option to recognise the lease payments associated with short-term lease agreements with a term of less than twelve months (short-term leases) that do not contain a purchase option for the leased asset as an expense on a pro rata basis over the term of the lease agreement. At the same time, we do not recognise right-of-use assets and lease liabilities for lease agreements where the underlying assets have a low value (low-value assets). We consider low-value assets to be those whose value when new usually does not exceed USD 5,000. The lease payments associated with this group of leased assets are also recognised as an expense on a pro rata basis over the term of the lease agreement. Furthermore, we have exercised within the HSBC Trinkaus & Burkhardt Group the option to recognise non-lease components (such as service components) tied into lease components in a lease agreement as a single lease component rather than recognising them separately.

Right-of-use assets are measured pursuant to the cost model at a later stage. Accordingly, the rights of use are consequently subject to corresponding write-downs over the economic life of the asset or the term of the lease agreement, whichever is shorter, as well as any unscheduled impairments and remeasurements of the corresponding lease liabilities. Lease liabilities are subject to continuous compounding. Their book value, however, is decreased primarily by the lease payments made over time. Reassessments and changes in lease agreements may also lead to the remeasurement of lease obligations. In particular, write-downs and any impairments on right-of-use assets, as well as compounding on the lease liability, are recognised as an expense in the income statement.

Because the right-of-use assets recognised in the consolidated financial statements of HSBC Trinkaus & Burkhardt relate solely to rented properties, said right-of-use assets are reported as property, plant and equipment. Lease liabilities are reported under the item "Other liabilities". Write-downs and any impairments on right-of-use assets are reflected in administrative expenses, whereas interest expense from compounding on lease liabilities are presented in net interest income.

Lessors must classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. Lessors in a finance lease relationship must write off the leased asset upon lease commencement and recognise a lease receivable at an amount equal to the net investment in the lease to be reduced by the lessee's lease payments over the term of the lease. The lessor also recognises interest income in line with the underlying interest on the lease agreement.

Lessors in operating lease relationships continue to recognise the leased asset in the balance sheet and write it off accordingly over time. The lessee's lease payments are recognised as income on a pro rata basis.

Special provisions must be observed for sale and leaseback transactions and for subleasing agreements. Under the provisions for the recognition of subleasing relationships, all rights of use associated with leased assets must be written off if they have been transferred to third parties within the scope of a finance lease. In this case, receivables from subleasing agreements are to be reported in the place of right-of-use assets.

Effects of the initial application of IFRS 16

The HSBC Trinkaus & Burkhardt Group is largely affected as a lessee by the new provisions for reporting leases. All existing lease agreements have been classified as operating lease agreements under IAS 17.

In accordance with the requirements of IFRS 16, we applied this standard at the point of initial application, 1 January 2019, and exercised the option to present the retroactive application of the new standard by reporting the cumulated initial-application effect of IFRS 16 as at the time of initial application (modified retroactive approach). As a result, no adjustments to the comparison period were made. Furthermore, use has been made of the exemption allowing the Group to forgo a reassessment of whether an agreement constitutes or contains a lease relationship at the time of the initial application of IFRS 16. The assessment of the existence of a lease relationship previously performed pursuant to IAS 17 and/or IFRIC 4 was maintained at the time of initial application. Exemptions were necessary at the time of initial application (using hindsight) for retroactive provisions such as the term of a lease agreement with extension or termination options. Furthermore, we treat lease agreements with a residual term of less than twelve months at the time of initial application as short-term leases.

The initial recognition of lease liabilities was subject to discount rates of 0.42 % for agreements with a term of less than five years to 1.08 % for agreements with a term of more than ten years. Rights of use were recognised for the first time at the time of the initial application of IFRS 16 in the amount of the lease liabilities in consideration of any necessary adjustments, albeit without considering any initial direct costs. At the time of the initial application of IFRS 16, we continued to use previous assessments as to whether a lease agreement constitutes an onerous contract that were performed in accordance with IAS 37. The provisions in existence up to that point led to a corresponding reduction in the book value of rights of use within the scope of the initial balance-sheet recognition of rights of use.

The use of the modified retroactive approach to the initial application of IFRS16 increases the balance sheet by €59.5 million at the HSBC Trinkaus & Burkhardt Group.

The increase in the balance sheet as at 1 January 2019 results from the initial recognition of right-of-use assets in the amount of €41.6 million and from the capitalisation of receivables from subleasing agreements in the amount of €17.9 million coupled with the recognition of lease liabilities in the amount of €68.6 million and the derecognition of provisions created in conjunction with rental agreements in the amount of €9.1 million. The initial recognition of right-of-use assets is based on the assessment of the lease liabilities as at the time of initial application. The initial application of IFRS 16 did not have an impact on shareholders' equity.

The consolidated financial statements as at 31 December 2018 contained obligations from rental and lease agreements in the amount of €113.3 million in total. The difference between this amount and the lease liabilities to be recognised under IFRS 16 is due among other things to the fact that only part of the existing lease agreements led to the recognition of lease liabilities as at the time of initial application in accordance with the new provisions.

Furthermore, Group companies act as the lessor of commercial real estate. The initial application of IFRS 16 to these rental agreements did not have an impact on the consolidated balance sheet.

Adjustments to accounting methods for future reporting periods

IAS 8.30 requires the reporting of known or reasonably estimable information relevant to assessing the possible impact the application of a new standard will have on the financial statements of companies in the period of initial application. The following presentation on the expected impacts of the initial application of new accounting principles are each based on the current status of the preparations for their introduction and the current frameworks. However, the facts and circumstances pertaining to the respective time of initial application are decisive for the actual effects of the initial application of new or changed accounting principles. Depending on future development, the actual effects of the initial application of new accounting principles can vary substantially from the expectations described below.

The IASB published the new accounting standard IFRS 17 "Insurance Contracts" in mid-May 2017. IFRS 17 introduces new rules for the reporting of insurance contracts and the measurement of insurance liabilities. The standard is obligatory for financial years that start on or after 1 January 2021 and replaces IFRS 4. EU endorsement is still pending. The impact on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

The changes to the framework for IFRS standards, the changes to IFRS 3 "Business Combinations" and the changes to IAS 1 and IAS 8 regarding the definition of materiality are applicable for financial years that start on or after 1 January 2020, pending adoption into EU law. At the current time, these amendments have little to no effect on our consolidated financial statements.

The preparation of IFRS financial statements requires management to provide assessments, assumptions and estimates. This is necessary with regard to the determination of the fair values of financial instruments, the classification in fair value levels 1–3, the impairment of financial instruments and other assets, the recognition of provisions (including provisions for current taxes) and other obligations, the net loan impairment provisions in the lending and securities business, the calculation of deferred taxes, the assessment of the control of structured entities within the meaning of IFRS 10 and the estimation of the expected duration of lease agreements. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessment. Estimates are subject to forecast uncertainties. In order to keep these to a minimum, available objective information, as well as experience, is drawn upon as much as possible. The estimation procedures used are reviewed regularly and adjusted if necessary.

The presentation currency is euro. For greater clarity, we generally report all amounts in millions of euros. The figures have been rounded commercially, which may result in minor deviations in the calculation of totals and percentages in this Interim Report.

1 Net Interest Income

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Interest income*	**169.0**	**147.6**
Interest income from financial assets measured at amortised cost	**126.4**	**99.5**
Interest income from the lending business and money market transactions	126.4	99.5
Interest income from the securities business	0.0	0.0
Interest income from financial instruments recognised as liabilities	**20.6**	**16.9**
Interest income from financial assets measured at fair value directly in equity	**14.9**	**18.6**
Interest income from the lending business and money market transactions	2.1	2.4
Interest income from the securities business	12.8	16.2
Other interest income	**4.0**	**8.7**
Interest income from other financial assets mandatorily measured at fair value through profit or loss	**3.1**	**3.9**
Interest income from the lending business and money market transactions	0.0	0.0
Interest income from the securities business	3.1	3.9
Interest expense*	**55.5**	**44.6**
Interest expense from financial liabilities measured at amortised cost	**38.2**	**30.0**
Interest expense from the deposit-taking business	30.1	23.0
Interest expense from the securities business (subordinated capital)	8.1	7.0
Interest expense from financial instruments carried as assets	**14.9**	**12.3**
Interest expense from hedge accounting	**0.3**	**0.2**
Interest expense from lease liabilities	**0.3**	**n/a**
Other interest expense	**2.1**	**2.1**
Net interest income	**113.5**	**103.0**

* Interest from hedge accounting is reported on a net basis in line with the market standard. This results in a reduction of €6.2 million each in interest income and expense in the previous year.

2 Net Loan Impairment and Other Credit Risk Provisions

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Additions	33.3	2.5
Reversals	4.1	5.1
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.0
Total	**29.2**	**–2.6**

3 Net Fee Income

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Securities portfolio transactions	61.5	54.1
Securities transactions	55.3	38.7
Asset management	35.2	37.8
Foreign exchange trades	31.5	29.7
Lending	11.8	12.0
Domestic/international payments	10.8	10.8
Capital financing	8.1	26.4
Other services	7.5	1.3
Total	**221.7**	**210.8**

Provision income consists of the following:

in €m		PB & AM	CMB	GB&M	CC / consoli-dation	Total
Income from securities portfolio transactions	30.06.2019	2.2	0.1	117.3	0.2	119.8
	30.06.2018	2.8	0.1	109.3	−0.1	112.1
Income from securities transactions	30.06.2019	4.1	4.0	79.2	−0.1	87.2
	30.06.2018	3.9	2.3	63.2	0.0	69.4
Income from asset management	30.06.2019	37.7	1.1	−0.3	0.0	38.5
	30.06.2018	38.6	1.2	0.7	0.0	40.5
Income from foreign exchange trades	30.06.2019	4.2	8.1	22.5	0.0	34.8
	30.06.2018	3.3	7.8	21.1	0.5	32.7
Income from capital financing	30.06.2019	0.0	1.0	7.7	0.0	8.7
	30.06.2018	0.0	2.0	26.6	0.0	28.6
Income from lending business	30.06.2019	2.4	11.5	1.6	0.0	15.5
	30.06.2018	2.4	10.7	1.6	0.0	14.7
Income from domestic/international payments	30.06.2019	0.3	8.0	4.2	0.0	12.5
	30.06.2018	0.2	7.7	4.4	0.0	12.3
Income from other services	30.06.2019	3.1	0.1	4.5	0.0	7.7
	30.06.2018	0.2	0.1	1.6	−0.3	1.6
Total	**30.06.2019**	**54.0**	**33.9**	**236.7**	**0.1**	**324.7**
	30.06.2019	**51.4**	**31.9**	**228.5**	**0.1**	**311.9**

4 Net Trading Income

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Equities and equity/index-linked derivatives	22.3	29.3
Bonds, money market transactions and interest rate derivatives	13.8	11.6
Foreign exchange	4.6	1.8
Hedge result	0.1	0.1
Derivatives held in the banking book	–0.1	–0.2
Total	**40.7**	**42.6**

Interest and dividend income attributable to trading activities is included in net trading income.

5 Net Profit from Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Bonds and other fixed-income securities	1.9	–4.3
Hybrid financial instruments	3.0	–2.9
Investment certificates	0.9	0.0
Equities and other non-fixed-income securities	0.2	–0.4
Investments	0.2	2.2
Total	**6.2**	**–5.5**

6 Administrative Expenses

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Staff expenses	196.9	168.8
Wages and salaries	161.2	136.0
Social security costs	20.3	18.8
Expenses for retirement pensions and other employee benefits	15.4	14.0
Other administrative expenses	104.5	110.4
Depreciation and amortisation	18.6	11.1
Total	**320.0**	**290.3**

Depreciation and amortisation include the following amounts:

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Operational and business equipment	2.9	2.1
Land and buildings	0.9	0.9
Intangible assets	9.0	8.1
Rights of use	5.8	n/a
Total	**18.6**	**11.1**

7 Income from Financial Assets

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Bonds and other fixed-income securities	5.1	4.7
Promissory note loans	0.0	10.4
Investments	0.0	0.0
Total	**5.1**	**15.1**

8 Net Other Income

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Other operating income	12.8	10.4
Other operating expenses	3.5	5.3
Other net operating income	**9.3**	**5.1**
Other income	0.2	0.3
Other expenses	0.3	0.1
Other net income	**–0.1**	**0.2**
Net other income	**9.2**	**5.3**

9 Customer Groups*

in €m		PB & AM	CMB	GB&M	CC / con-solidation*	Total
Net interest income	30.06.2019	3.7	62.9	35.0	11.9	113.5
	30.06.2018	4.5	53.1	33.8	11.6	103.0
Net fee income	30.06.2019	49.2	26.4	146.1	0.0	221.7
	30.06.2018	47.8	26.2	136.7	0.1	210.8
Net trading income	30.06.2019	1.1	1.8	36.2	1.6	40.7
	30.06.2018	1.3	2.0	34.9	4.4	42.6
Other net operating income	30.06.2019	1.2	1.7	6.5	−0.1	9.3
	30.06.2018	0.8	1.4	3.3	−0.4	5.1
Operating revenues	30.06.2019	55.2	92.8	223.8	13.4	385.2
	30.06.2018	54.4	82.7	208.7	15.7	361.5
Risk provisioning in the lending and securities business	30.06.2019	0.2	27.3	0.3	1.4	29.2
	30.06.2018	0.0	−1.2	−0.1	−1.3	−2.6
Administrative expenses	30.06.2019	47.9	58.4	196.6	17.1	320.0
	30.06.2018	45.8	55.5	173.2	15.8	290.3
Operating result	30.06.2019	7.1	7.1	26.9	−5.1	36.0
	30.06.2018	8.6	28.4	35.6	1.2	73.8
Net profit from other financial assets mandatorily measured at fair value through profit or loss	30.06.2019	0.0	0.0	0.0	6.2	6.2
	30.06.2018	0.0	0.0	0.0	−5.5	−5.5
Income from financial assets	30.06.2019	0.0	0.0	0.1	5.0	5.1
	30.06.2018	2.4	3.7	9.3	−0.3	15.1
Other net income	30.06.2019	0.0	0.0	0.0	−0.1	−0.1
	30.06.2018	0.0	0.0	0.0	0.2	0.2
Pre-tax profit	**30.06.2019**	**7.1**	**7.1**	**27.0**	**6.0**	**47.2**
	30.06.2018	**11.0**	**32.1**	**44.9**	**−4.4**	**83.6**
Taxation	30.06.2019	2.4	2.5	9.3	2.1	16.3
	30.06.2018	3.5	10.1	14.1	0.9	28.6
Net profit for the year	**30.06.2019**	**4.7**	**4.6**	**17.7**	**3.9**	**30.9**
	30.06.2018	**7.5**	**22.0**	**30.8**	**−5.3**	**55.0**

* No material consolidation effects were recorded in the reporting period.

The further increase in political risks due to the intensification of the trade conflict between the US and China as well as the increased probability of a no-deal Brexit has further exacerbated global economic uncertainty, which is having a particularly pronounced impact on the export-oriented German economy. The resulting uncertain outlook for the further development of the economy has led to increased caution among our clients when it comes to equity products and has made more stringent net loan impairment provisioning measures necessary. The cost of large-scale multi-year projects, the ECB's continuing low interest rate policy with negative deposit rates and the expenses for implementing regulatory requirements, which remain high, have also put pressure on the Bank's earnings situation this year. The income growth achieved in all core segments despite these difficult conditions was not enough to compensate for the increase in costs in all segments and the expenses for net loan impairment and other credit risk provisions in the Commercial Banking segment.

The Central segment primarily includes interest income from money market trading and regulatory costs, including the expenses for the banking levy, which increased once again. As a result of this year's reductions in market interest rates, the Central segment benefited from valuation gains related to financial assets that must be measured at fair value through profit or loss, unlike in the previous year.

In percentage terms, the Commercial Banking segment generated the highest rise in income. However, the volume-based expansion of net interest income in the lending business was unable to fully offset the necessary higher allocations to net loan impairment and other credit risk provisions.

The Global Banking and Markets segment was particularly successful in transactions involving fixed income products and in fund administration and custodian bank business as a result of the higher volume of assets under administration and assets under custody, thereby more than compensating for the decrease in fee income from transaction-related equity business and in investment banking, which had been bolstered in the previous year by a higher number of individual transactions.

Despite the very limited efforts so far to pass on the ECB's negative market interest rates to private clients, the Global Private Banking & Asset Management segment succeeded in slightly increasing its revenues, mainly in the transaction-related business involving private clients and special funds.

The increase in staff and non-staff expenses across all areas of the Bank is primarily attributable to the project aimed at introducing a new core banking system, which was launched over the course of the previous year, and to client-related projects. The expenses in connection with the efficiency programme launched in the first half of 2019 also contributed to the increase in staff expenses across all segments. Other factors included the continued significant costs for the implementation of new regulatory requirements and compliance with existing regulatory requirements, as well as for the efforts to maintain the high level of the HSBC Global Standards to prevent financial crime.

10 Loans and Advances to Banks

in €m	30.06.2019	31.12.2018
Current accounts	1,323.7	916.3
Money market transactions	0.0	64.1
of which overnight money	0.0	0.0
of which term deposits	0.0	64.1
Other receivables	235.1	214.9
Collateral items in the derivatives trading business	0.0	265.4
Total (before net loan impairment provision)	**1,558.8**	**1,460.7**
Net loan impairment provision for loans and advances	0.1	0.0
Total (net)	**1,558.7**	**1,460.7**

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

11 Loans and Advances to Customers

in €m	30.06.2019	31.12.2018
Current accounts	2,132.9	1,800.8
Money market transactions	962.4	1,030.6
of which overnight money	49.5	69.7
of which term deposits	912.9	960.9
Loan accounts	7,243.7	7,143.2
Other receivables	836.9	770.5
Lease receivables	17.0	0.0
Collateral items in the derivatives trading business	118.7	35.4
Total (before net loan impairment provision)	**11,311.6**	**10,780.5**
Net loan impairment provision for loans and advances	57.1	30.7
Total (net)	**11,254.5**	**10,749.8**

12 Trading Assets

in €m	30.06.2019	31.12.2018
Bonds and other fixed-income securities	1,030.6	1,206.5
Equities and other non-fixed-income securities	476.6	706.6
Tradable receivables	891.8	963.6
Total	**2,399.0**	**2,876.7**

13 Positive Market Values of Derivative Financial Instruments

in €m	30.06.2019	31.12.2018
Positive market value of derivatives	1,247.5	1,265.5
of which OTC derivatives	1,094.5	1,016.8
of which exchange-traded derivatives	153.0	248.7
Derivatives in hedging relationships	1.2	0.0
Derivatives held in the banking book	0.1	0.1
Total	**1,248.8**	**1,265.6**

14 Other Financial Assets that Must Be Measured at Fair Value through Profit or Loss

in €m	30.06.2019	31.12.2018
Bonds and other fixed-income securities	77.7	88.0
Hybrid financial instruments	34.5	60.0
Investment certificates	11.2	21.3
Equities and other non-fixed-income securities	0.0	8.2
Investments	14.3	14.7
Total	**137.7**	**192.2**

15 Financial Assets

in €m	30.06.2019	31.12.2018
Bonds and other fixed-income securities	3,467.0	3,418.1
Promissory note loans	89.3	90.3
Investments	23.8	23.7
Total	**3,580.1**	**3,532.1**

16 Investments

in €m	30.06.2019	31.12.2018
Land and buildings	66.8	67.7
Right-of-use assets	35.8	n/a
Operational and business equipment	47.1	47.8
Property, plant and equipment	149.7	115.5
Intangible assets	80.3	69.2
Total	**230.0**	**184.7**

17 Non-Current Assets Held for Sale

A property from a consolidated closed-end real estate fund previously reported under "Other assets" was classified as held for sale in the first half of 2019, as the Group is now eager to sell the property within the next twelve months and has already started actively marketing it. The successful conclusion of the sale process is expected in the second half of this year. The classification of the property as held for sale did not have any impact on the Group's income statement in the first half of 2019. The property is allocated to the Corporate Center.

18 Deposits by Banks

in €m	**30.06.2019**	**31.12.2018**
Current accounts	778.0	401.8
Money market transactions	1,580.0	1,974.6
of which overnight money	0.0	0.0
of which term deposits	1,580.0	1,974.6
Other liabilities	849.3	785.8
Collateral items in the derivatives trading business	204.0	156.7
Total	**3,411.3**	**3,318.9**
of which domestic banks	2,524.5	2,359.1
of which foreign banks	886.8	959.8

19 Customer Accounts

in €m	**30.06.2019**	**31.12.2018**
Current accounts	15,893.2	12,871.9
Money market transactions	1,980.6	1,560.4
of which overnight money	690.0	383.7
of which term deposits	1,290.6	1,176.7
Savings deposits	1.8	1.7
Other liabilities	376.5	326.3
Collateral items in the derivatives trading business	36.5	101.1
Total	**18,288.6**	**14,861.4**
of which domestic customers	16,883.3	13,757.2
of which foreign customers	1,405.3	1,104.2

20 Trading Liabilities

in €m	30.06.2019	31.12.2018
Promissory note loans	263.0	290.8
Bonds	534.8	538.6
Certificates and warrants	1,004.7	987.6
Delivery obligations arising from securities sold short	18.2	8.9
Total	**1,820.7**	**1,825.9**

21 Negative Market Values of Derivative Financial Instruments

in €m	30.06.2019	31.12.2018
Negative market value of derivatives	1,063.4	955.8
of which OTC derivatives	886.9	756.9
of which exchange-traded derivatives	176.5	198.9
Derivatives in hedging relationships	37.6	22.8
Derivatives held in the banking book	0.2	0.1
Total	**1,101.2**	**978.7**

22 Provisions

in €m	30.06.2019	31.12.2018
Provisions for pensions and similar obligations	124.9	98.2
Provisions for off-balance sheet commitments in the lending business	7.0	5.9
Other provisions	56.6	63.4
Total	**188.5**	**167.5**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in the first half of 2019:

in €m	Pensions and similar obligations	Partial retirement	Statutory retirement age	Other	Total
As at 01.01	**88.1**	**1.3**	**3.5**	**5.3**	**98.2**
Change in the plan assets	0.1	0.0	–2.4	0.0	–2.3
Pensions paid	–5.0	–0.5	0.0	0.0	–5.5
Additions (incl. projected income)	9.0	0.5	1.8	0.1	11.4
Transfers/other	–0.1	0.0	0.0	0.5	0.4
Changes recognised directly in equity arising from the remeasurement of the net pension obligation	22.7	0.0	0.0	0.0	22.7
As at 30.06	**114.8**	**1.3**	**2.9**	**5.9**	**124.9**

Other provisions

Other provisions developed as follows in the first half of 2019:

in €m	As at 01.01.2019	Utilisation	Reversals	Additions	Com-pounding	Transfers / other	As at 30.06.2019
Provisions for trade payables for software and hardware	9.7	0.7	0.0	1.0	0.0	0.0	10.0
Provisions for expected interest on retrospective tax payments	8.1	0.0	0.0	0.0	0.1	0.0	8.2
Provisions for trade payables for goods and services	12.1	1.8	1.3	6.0	0.0	0.0	15.0
Provisions for goodwill and legal risks	9.6	0.1	0.0	0.8	0.0	0.0	10.3
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg*	2.2	0.1	0.0	0.0	0.0	0.0	2.1
Provisions for restoration obligations*	6.2	0.0	0.0	0.0	0.0	0.0	6.2
Provisions for archiving	2.8	0.0	0.0	0.0	0.0	0.0	2.8
Provisions for other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Miscellaneous other provisions	3.5	1.2	0.7	0.3	0.0	0.0	1.9
Total*	**54.3**	**3.9**	**2.0**	**8.1**	**0.1**	**0.0**	**56.6**

* Derecognition of provisions created in conjunction with rental agreements upon initial application of IFRS 16 in the amount of €9.1 million in the opening balance sheet (€7.4 million in provisions created in conjunction with the discontinuation of certain business activities in Luxembourg and €1.7 million in provisions for restoration obligations)

The assessment of the expected maturities for the outflow of economic benefits for the remaining provisions is subject to a high level of uncertainty and is estimated at up to five years on average.

No material legal disputes and associated litigation risks were pending as at 30 June 2019.

23 Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment provision for loans and advances

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**11,467.9**	**571.6**	**201.7**	**12,241.2**	**1.1**	**1.9**	**27.7**	**30.7**
(Net) transfer between levels	−254.7	235.0	19.7	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	587.2	31.6	10.6	629.4	1.1	3.0	22.6	26.7
Utilisation	0.0	0.0	−0.2	−0.2	0.0	0.0	−0.2	−0.2
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**11,800.4**	**838.2**	**231.8**	**12,870.4**	**2.2**	**4.9**	**50.1**	**57.2**

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**9,452.8**	**688.4**	**106.6**	**10,247.8**	**1.3**	**3.4**	**31.8**	**36.5**
(Net) transfer between levels	−118.7	102.2	16.5	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	2,206.1	−434.7	−7.3	1,764.1	−0.1	−1.2	1.2	−0.1
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**11,540.2**	**355.9**	**115.8**	**12,011.9**	**1.2**	**2.2**	**33.0**	**36.4**

Net loan impairment provision for financial assets

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**3,480.7**	**27.7**	**0.0**	**3,508.4**	**0.4**	**0.5**	**0.0**	**0.9**
(Net) transfer between levels	−24.8	24.8	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	40.5	7.4	0.0	47.9	0.1	1.3	0.0	1.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**3,496.4**	**59.9**	**0.0**	**3,556.3**	**0.5**	**1.8**	**0.0**	**2.3**

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**4,524.5**	**25.2**	**39.7**	**4,589.4**	**0.2**	**0.2**	**10.1**	**10.5**
(Net) transfer between levels	–26.1	26.1	0.0	0.0	0.1	–0.1	0.0	0.0
Portfolio changes and changes related to credit quality	–638.4	–0.7	–39.7	–678.8	0.0	0.1	–10.1	–10.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**3,860.0**	**50.6**	**0.0**	**3,910.6**	**0.3**	**0.2**	**0.0**	**0.5**

Provisions for off-balance sheet commitments in the lending business

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2019	**12,747.4**	**784.6**	**38.1**	**13,570.1**	**0.6**	**0.8**	**4.5**	**5.9**
(Net) transfer between levels	–262.9	262.9	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	–100.7	187.3	–20.5	66.1	0.5	0.7	–0.1	1.1
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2019	**12,383.8**	**1,234.8**	**17.6**	**13,636.2**	**1.1**	**1.5**	**4.4**	**7.0**

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**12,237.3**	**497.1**	**32.2**	**12,766.6**	**0.6**	**1.6**	**10.4**	**12.6**
(Net) transfer between levels	60.8	–61.2	0.4	0.0	0.3	–0.3	0.0	0.0
Portfolio changes and changes related to credit quality	–72.6	74.5	6.1	8.0	–0.1	–0.5	–1.3	–1.9
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**12,225.5**	**510.4**	**38.7**	**12,774.6**	**0.8**	**0.8**	**9.1**	**10.7**

24 Fair Value of Financial Instruments

The fair value in accordance with IFRS is the price that would be received or paid when an asset is sold or a liability transferred within the scope of an arm's-length transaction between market participants on the valuation date. The fair value concept is therefore based on a hypothetical transaction on the valuation date. Due to the orientation towards representative market participants, the fair value must abstract from an undertaking's individual assumptions. After determining the object to be assessed, which is the equivalent of an individual financial asset or an individual financial liability, the main market is determined. This is the market with the largest trading volume and the most market activity for the valuation object. When determining the main market, all information that is accessible without any excessive effort is taken into consideration. As many relevant observable input factors as possible are taken into account when selecting suitable valuation methods. Based on the origins of the input factors used, three levels are differentiated in the fair value hierarchy.

The three fair value levels provided by IFRS 13 can be distinguished by the input factors used for the measurement.

Where the measurement is based on unadjusted quoted prices on active markets for identical financial instruments, the fair value is allocated to Level 1.

The fair value is allocated to Level 2 if input factors that are directly or indirectly observable on the market are included in the measurement that cannot be allocated to Level 1. The entire fair value may be allocated to Level 2, provided all significant input factors for the measurement process are observable.

If unobservable market parameters are included in the measurement, classification is in Level 3.

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 originate in active markets.

The necessary measure of subjective measurement and assessment by management are more important for those financial instruments that are measured using special and complex models and where at least one material input parameter is not observable. The selection and application of appropriate parameters, assumptions and model techniques must be assessed by the management.

Remeasurements are an integral part of the process for determining the fair value that forms the basis for assessments. Remeasurements of the fair value are undertaken in the HSBC Trinkaus & Burkhardt Group if value-adjusting circumstances occur that might lead market participants to expect to be included in the determination of the fair value but are not taken into account directly in the valuation model. When calculating adequate remeasurements, the Group uses procedures that take into account factors such as bid/ask spreads, counterparty risk, own credit or financing risk. These remeasurements are not calculated on the basis of individual transactions but on a net basis in accordance with the steering committee.

Remeasurements of the fair value to take counterparty risks into consideration (credit valuation adjustment, CVA) are undertaken for OTC derivatives, in order to take into account the default probability of our contractual partner.

Remeasurements of the fair value to take into consideration the risk that HSBC Trinkaus & Burkhardt defaults as a contractual party (debit valuation adjustment, DVA) are also undertaken for OTC derivatives, to take into account the probability of the Bank's default.

Funding fair value adjustments are necessary to take into account the funding costs implied by the market when measuring the unsecured derivative position at fair value.

Key valuation issues are dealt with by the Bank's Valuation Committee.

Product Control is responsible, among other things, for the fair value measurements of financial instruments and reports to the Chief Financial Officer in this context.

Product Control carries out the following controls by:

- verifying observable prices
- validating the plausibility of model valuations
- reviewing and releasing new valuation models and changing existing models
- adjusting to changed input parameters and comparing model results and observable market transactions
- analysing and examining key measurement fluctuations
- verifying significant factors that are not observable on the market, and validating the plausibility of instruments classified as Level 3.

Product Control assesses information provided by third parties, such as price offers or pricing services that are used for pricing, to ensure such external information meets the qualitative requirements.

There were no significant changes to the valuation methods used compared with 31 December 2018.

30.06.2019	**Level 1**	**Level 2**	**Level 3**	**Total**
in €m				
Assets				
Trading assets	**470.9**	**1,922.4**	**5.7**	**2,399.0**
Bonds and other fixed-income securities	0.0	1,030.6	0.0	1,030.6
Equities and other non-fixed-income securities	470.9	0.0	5.7	476.6
Tradable receivables	0.0	891.8	0.0	891.8
Positive market values of derivative financial instruments	**153.0**	**1,094.5**	**1.3**	**1,248.8**
Positive market value of derivatives	153.0	1,093.2	1.3	1,247.5
of which interest rate transactions	0.0	553.6	0.0	553.6
of which foreign exchange-based transactions	0.0	524.5	1.3	525.8
of which equity/index-related transactions	153.0	1.7	0.0	154.7
of which commodity-related transactions	0.0	13.4	0.0	13.4
Derivatives in hedging relationships	0.0	1.2	0.0	1.2
Derivatives held in the banking book	0.0	0.1	0.0	0.1
Financial assets	**10.9**	**3,569.2**	**0.0**	**3,580.1**
Bonds and other fixed-income securities	0.0	3,467.0	0.0	3,467.0
Promissory note loans	0.0	89.3	0.0	89.3
Investments	10.9	12.9	0.0	23.8
Other financial assets that must be measured at fair value through profit or loss	**13.4**	**105.4**	**18.9**	**137.7**
Bonds and other fixed-income securities	0.0	70.9	6.8	77.7
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investment certificates	11.2	0.0	0.0	11.2
Hybrid financial instruments	0.0	34.5	0.0	34.5
Investments	2.2	0.0	12.1	14.3
Liabilities				
Trading liabilities	**0.0**	**1,807.7**	**13.0**	**1,820.7**
Promissory note loans	0.0	263.0	0.0	263.0
Bonds	0.0	532.5	2.3	534.8
Certificates and warrants	0.0	994.0	10.7	1,004.7
Delivery obligations arising from securities sold short	0.0	18.2	0.0	18.2
Negative market values of derivative financial instruments	**176.5**	**923.4**	**1.3**	**1,101.2**
Negative market value of derivatives	176.5	885.6	1.3	1,063.4
of which interest rate transactions	0.0	355.6	0.0	355.6
of which foreign exchange-based transactions	0.0	516.1	1.3	517.4
of which equity/index-related transactions	176.5	0.5	0.0	177.0
of which commodity-related transactions	0.0	13.4	0.0	13.4
Derivatives in hedging relationships	0.0	37.6	0.0	37.6
Derivatives held in the banking book	0.0	0.2	0.0	0.2

31.12.2018	**Level 1**	**Level 2**	**Level 3**	**Total**
in €m				
Assets				
Trading assets	**695.8**	**2,170.1**	**10.8**	**2,876.7**
Bonds and other fixed-income securities	0.0	1,206.5	0.0	1,206.5
Equities and other non-fixed-income securities	695.8	0.0	10.8	706.6
Tradable receivables	0.0	963.6	0.0	963.6
Positive market values of derivative financial instruments	**248.7**	**1,015.7**	**1.2**	**1,265.6**
Positive market value of derivatives	248.7	1,015.6	1.2	1,265.5
of which interest rate transactions	0.0	498.6	0.0	498.6
of which foreign exchange-based transactions	0.0	497.3	1.2	498.5
of which equity / index-related transactions	248.7	9.2	0.0	257.9
of which commodity-related transactions	0.0	10.5	0.0	10.5
Derivatives in hedging relationships	0.0	0.0	0.0	0.0
Derivatives held in the banking book	0.0	0.1	0.0	0.1
Financial assets	**10.8**	**3,521.3**	**0.0**	**3,532.1**
Bonds and other fixed-income securities	0.0	3,418.1	0.0	3,418.1
Promissory note loans	0.0	90.3	0.0	90.3
Investments	10.8	12.9	0.0	23.7
Other financial assets that must be measured at fair value through profit or loss	**23.8**	**149.9**	**18.5**	**192.2**
Bonds and other fixed-income securities	0.0	81.7	6.3	88.0
Equities and other non-fixed-income securities	0.0	8.2	0.0	8.2
Investment certificates	21.3	0.0	0.0	21.3
Hybrid financial instruments	0.0	60.0	0.0	60.0
Investments	2.5	0.0	12.2	14.7
Liabilities				
Trading liabilities	**0.0**	**1,796.7**	**29.2**	**1,825.9**
Promissory note loans	0.0	290.8	0.0	290.8
Bonds	0.0	537.4	1.2	538.6
Certificates and warrants	0.0	959.6	28.0	987.6
Delivery obligations arising from securities sold short	0.0	8.9	0.0	8.9
Negative market values of derivative financial instruments	**198.9**	**778.6**	**1.2**	**978.7**
Negative market value of derivatives	198.9	755.7	1.2	955.8
of which interest rate transactions	0.0	261.6	0.0	261.6
of which foreign exchange-based transactions	0.0	481.5	1.2	482.7
of which equity / index-related transactions	198.9	2.1	0.0	201.0
of which commodity-related transactions	0.0	10.5	0.0	10.5
Derivatives in hedging relationships	0.0	22.8	0.0	22.8
Derivatives held in the banking book	0.0	0.1	0.0	0.1

The fair value of some financial instruments is calculated using valuation models, where at least one significant input parameter cannot be observed on the market (Level 3). These instruments include currency-hedged certificates (quanto certificates), as parameters for the correlation between the underlying and the foreign currency are not quoted on the market, and options, the measurement of which depends significantly on unobservable volatilities.

In addition, we classify illiquid equity investments and certificates that have illiquid equity instruments as underlyings under Level 3. Financial instruments that are measured using measurement models but in relation to which the counterparty's probability of default is not observable on the market as a significant measurement parameter are also attributed to Level 3.

	Assets			Liabilities					
30.06.2019	Fair value of trading assets (in €m)	Fair value of other financial assets that must be measured at fair value through profit or loss (in €m)	Fair value of positive market values of derivative financial instruments (in €m)	Fair value of trading liabilities (in €m)	Fair value of negative market values of derivative financial instruments (in €m)	Measurement method	Significant unobservable parameters (Level 3)	Uncertainty of interval margin (in €m)	Range of estimates for unobservable input factors
Illiquid equity instruments/ private equity certificates	5.7			5.7		Modified net asset value method	–	0.0 to 0.0	−5 to 5% price change
FX options			1.3		1.3	Analytical Black-Scholes approach	Volatility	0.1 to 0.1	95 % confidence interval based on average prices for unobservable volatility
Illiquid debt instruments		6.8				Present value method	Credit spread	−0.1 to 0.1	−10 to 10% credit spread change
Illiquid equity instruments		12.1				Modified net asset value method	–	−0.6 to 0.6	−5 to 5% price change
Volatility-dependent options				2.4		Analytical Black-Scholes approach	Volatility	−0.0 to 0.0	12 to 16% (14%)
Currency-hedged certificates				4.9		Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	−67 to 25% (−1%)

31.12.2018	Assets			Liabilities					
	Fair value of trading assets (in €m)	Fair value of other financial assets that must be measured at fair value through profit or loss (in €m)	Fair value of positive market values of derivative financial instruments (in €m)	Fair value of trading liabilities (in €m)	Fair value of negative market values of derivative financial instruments (in €m)	Measurement method	Significant unobservable parameters (Level 3)	Uncertainty of interval margin (in €m)	Range of estimates for unobservable input factors
Illiquid equity instruments/ private equity certificates	10.8			10.8		Modified net asset value method	–	0.0 to 0.0	−5 to 5% price change
FX options			1.2		1.2	Analytical Black-Scholes approach	Volatility	0.0 to 0.0	95 % confidence interval based on average prices for unobservable volatility
Illiquid debt instruments		6.3				Present value method	Credit spread	−0.1 to 0.1	−10 to 10% credit spread change
Illiquid equity instruments		12.2				Modified net asset value method	–	−0.6 to 0.6	−5 to 5% price change
Volatility-dependent options				11.1		Analytical Black-Scholes approach	Volatility	−0.1 to 0.1	14 to 22% (18%)
Currency-hedged certificates				7.3		Analytical Black-Scholes approach	Correlation between underlyings	−0.0 to 0.0	−66 to 25% (−11%)

The uncertainty interval margin for correlation-dependent currency-hedged certificates that require a correlation that is not observable on the market is calculated by shifting the estimated correlations by +/– 10%. The uncertainty interval margin for volatility-dependent options is derived from the shift in the volatility of the underlyings. The deflection of the volatility is up to +/– 2%.

The estimate range for non-derivative financial instruments is derived by changing the credit spread by +/– 10%.

If FX volatilities are not observable for FX options, we derive the uncertainty interval margin by applying a confidence interval of 95% to the available average prices.

The portfolio of Level 3 financial instruments developed as follows in the reporting period:

	Assets			Liabilities	
in €m	**Trading assets**	**Other financial assets that must be measured at fair value through profit or loss**	**Positive market values from derivative financial instruments**	**Trading liabilities**	**Negative market values from derivative financial instruments**
01.01.2019	**10.8**	**18.5**	**1.2**	**29.2**	**1.2**
Changes in the carrying amount					
recognised in the income statement	−0.4	0.4	−0.2	−3.0	−0.2
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	3.1	0.0
Issuance	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Maturities/repayments	4.7	0.0	0.0	16.3	0.0
Transfers to Level 3	0.0	0.0	1.3	0.0	1.3
Transfers out of Level 3	0.0	0.0	1.0	0.0	1.0
30.06.2019	**5.7**	**18.9**	**1.3**	**13.0**	**1.3**

	Assets			Liabilities	
in €m	**Trading assets**	**Other financial assets that must be measured at fair value through profit or loss**	**Positive market values from derivative financial instruments**	**Trading liabilities**	**Negative market values from derivative financial instruments**
01.01.2018	**16.0**	**14.3**	**1.9**	**39.7**	**1.9**
Changes in the carrying amount					
recognised in the income statement	1.3	3.1	−0.3	0.4	−0.3
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	1.5	0.0	1.2	0.0
Issuance	0.0	0.0	0.0	3.9	0.0
Sales	0.0	0.0	0.0	2.0	0.0
Maturities/repayments	2.4	0.3	0.0	6.4	0.0
Transfers to Level 3	0.0	0.0	0.4	0.0	0.4
Transfers out of Level 3	0.0	0.0	0.8	0.0	0.8
30.06.2018	**14.9**	**18.6**	**1.2**	**36.8**	**1.2**

A transfer out of Level 1 to Level 2 takes place if prices on active markets are no longer available for identical financial instruments. Such a transfer is necessary, for example, if market activity is low in the respective financial instrument. If at least one significant market parameter is no longer observable in the Level 2 measurement, a transfer is made out of Level 2 to Level 3.

Derivatives with positive and negative market values of €1.3 million respectively (previous year: €0.4 million) were transferred out of Level 2 to Level 3 in the reporting period. In the same period, derivatives with positive and negative market values of €1.0 million respectively (previous year: €0.8 million) were transferred out of Level 3 to Level 2 in the reporting period.

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

in €m	30.06.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
Assets				
Loans and advances to banks (gross)	1,558.8	1,558.9	1,460.7	1,461.2
Loans and advances to customers (gross)	11,311.6	11,358.9	10,780.5	10,904.4
Liabilities				
Deposits by banks	3,411.3	3,394.4	3,318.9	3,299.8
Customer accounts	18,288.6	18,332.7	14,861.4	14,867.9
Subordinated capital	550.8	568.0	580.5	588.0

The fair value of these items is calculated using the present value method. These items are allocated to Level 3 as the credit spread changes are not regularly observable on the market. Contingent liabilities amounted to €2,897.3 million (previous year: €2,916.3 million), and irrevocable loan commitments came to €10,738.9 million (previous year: €10,653.8 million).

25 Business Relationships with Companies and Persons Defined as Related Parties

Companies and persons are defined as related parties provided one party exercises direct or indirect control or can exercise a significant influence on their business or operating decisions.

As part of its ordinary course of business, HSBC Trinkaus & Burkhardt AG and/or its consolidated companies enter into business relationships with companies and persons defined as related parties. These include HSBC Group companies as well as persons in key positions and their relatives. Persons in key positions comprise exclusively the active members of the Management and Supervisory Boards of HSBC Trinkaus & Burkhardt AG in the financial year.

Business transactions with companies and persons defined as related parties are carried out under the same terms and conditions as business transactions with independent business partners.

Particularly intensive business relationships are fostered with other HSBC Group companies. These business relationships relate firstly to normal bank transactions, which are usually unsecured. Derivative transactions, on the one hand, are generally concluded and collateralised under master agreements that allow netting. On the other, there are cooperation and agency agreements with various companies of the HSBC Group. The consolidated income statement includes mainly the following income and expenses from transactions with HSBC Holdings plc, London, and its affiliated companies.

in €m	01.01 to 30.06.2019	01.01 to 30.06.2018
Interest income	0.5	0.2
Interest expense	4.5	3.5
Fee income	40.7	37.4
Fee expenses	0.5	0.0
Administrative expenses	9.3	9.0
Net trading income	0.0	0.0
Net other income	0.0	0.0
Total	**26.9**	**25.1**

Assets include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2019**	**31.12.2018**	**30.06.2019**	**31.12.2018**
Loans and advances to banks	841.5	898.0	0.0	0.0
Loans and advances to customers	0.4	0.4	89.6	90.0
Other assets	21.8	10.2	0.0	0.0
Total	**863.7**	**908.6**	**89.6**	**90.0**

Loans and advances to banks comprise mainly short-term deposits with other HSBC units.

Liabilities include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2019**	**31.12.2018**	**30.06.2019**	**31.12.2018**
Deposits by banks	435.3	709.5	0.0	0.0
Customer accounts	73.4	3.6	14.1	15.1
Other liabilities	361.7	363.4	0.0	0.0
Total	**870.4**	**1,076.5**	**14.1**	**15.1**

Deposits by banks comprise mainly short-term deposits of other HSBC units. Other liabilities primarily include subordinate deposits of HSBC Bank plc.

Trading assets/liabilities and financial assets do not include any transactions concluded with affiliated companies. The following table shows derivative transactions concluded with affiliated companies (predominantly interest and foreign exchange-based derivatives):

	Derivatives	
in €m	**30.06.2019**	**31.12.2018**
Derivatives with positive market values	706.3	562.6
Derivatives with negative market values	558.1	485.5
Total	**1,264.4**	**1,048.1**

26 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.

in €m	**2019**	**2018**
As at 01.01	**0.3**	**0.3**
New business	0.0	0.0
Day-1 profit or loss recognised through profit or loss	−0.3	0.0
of which positions closed out	0.0	0.0
of which matured transactions	−0.3	0.0
of which observable market parameters	0.0	0.0
As at 30.06	**0.0**	**0.3**

27 Derivatives Business

in €m	Nominal amounts by residual term Up to 1 year	1 to 5 years	Over 5 years	Total	Positive market values
Interest-rate transactions					
30.06.2019	2,831.5	10,410.8	4,206.1	17,448.4	554.8
31.12.2018	4,459.8	9,751.0	4,241.1	18,451.9	498.6
Foreign exchange-based transactions					
30.06.2019	79,671.3	5,577.4	182.7	85,431.4	525.9
31.12.2018	78,688.6	3,840.5	88.7	82,617.8	498.6
Commodity-related transactions					
30.06.2019	511.0	189.8	0.0	700.8	13.4
31.12.2018	323.6	11.1	0.0	334.7	10.5
Equity/index-related transactions					
30.06.2019	8,668.8	2,133.6	0.0	10,802.4	1.7
31.12.2018	5,858.1	2,444.6	1.4	8,304.1	9.2
Total					
30.06.2019	**91,682.6**	**18,311.6**	**4,388.8**	**114,383.0**	**1,095.8**
31.12.2018	**89,330.1**	**16,047.2**	**4,331.2**	**109,708.5**	**1,016.9**

Deals with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of deals represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity/index-related deals which include a settlement risk as well as corresponding market price risks. No account is taken of netting agreements. Exchange-traded products and short positions are not listed here due to their limited risk of default.

28 Contingent Liabilities and Other Obligations

in €m	30.06.2019	31.12.2018
Contingent liabilities on guarantees and indemnity agreements	2,897.3	2,916.3
Irrevocable loan commitments	10,738.9	10,653.8
Total	**13,636.2**	**13,570.1**

29 Supplementary Report

Material events occurring after the balance sheet date

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

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim 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 interim 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 for the remaining months of the financial year.

Düsseldorf, 27 August 2019

The Management Board

Carola Gräfin v. Schmettow **Dr Rudolf Apenbrink** **Nicolo Salsano**

Fredun Mazaheri **Dr Jan Wilmanns**

Key Dates

February 2020
Results Press Conference

June 2020
Annual General Meeting

August 2020
Interim Report as at 30 June 2020

Subject to changes

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