



# Annual Report 2009



HSBC  Trinkaus

# Financial Highlights of the HSBC Trinkaus Group

	2009	2008	Change in %
<b>Results in €m</b>			
Operating revenues	619.6	589.3	5.1
Net loan impairment and other credit risk provisions	22.4	4.5	> 100.0
Administrative expenses	400.8	384.2	4.3
Operating profit	196.4	200.6	-2.1
Profit before taxes	163.7	138.2	18.5
Tax expenses	54.5	48.6	12.1
Net profit for the year	109.2	89.6	21.9
<b>Balance sheet figures in €m</b>			
Total assets	18,728.6	22,205.7	-15.7
Shareholders' equity	1,062.5	955.0	11.3
<b>Ratios</b>			
Cost:income ratio of usual business activity in %	68.3	72.9	-
Return on equity before tax in %	17.1	15.2	-
Net fee income in % of operating revenues	55.9	59.0	-
Funds under management and administration in €bn	99.1	87.2	13.6
Employees	2,280	2,238	1.9
<b>Share information</b>			
Number of shares issued in million	26.1	26.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	4.12	3.49	18.0
Share price as at 31.12. in €	98.0	89.0	10.1
Market capitalisation in €m	2,557.8	2,323.9	-
<b>Regulatory ratios*</b>			
Tier 1 in €m	817	754	8.4
Regulatory capital in €m	1,160	1,151	0.8
Risk-weighted assets in €m	7,850	8,588	-8.6
Tier 1 ratio in %	10.4	8.8	-
Regulatory capital ratio in %	14.8	13.4	-

\* following confirmation of the balance sheet



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HSBC Trinkaus & Burkhardt

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# Ladies and Gentlemen,

The economic trend in Germany was influenced by the global financial and economic crisis last year. There was a dramatic slump in German industrial exports, and Germany had to suffer a decline in gross domestic product of around 5%. HSBC Trinkaus was able to uncouple itself from this negative trend and closed the year with a satisfactory result, which was favourable compared to the relevant competition. At € 196.4 million, operating profit was almost on the prior-year level while net profit for the year even grew by 21.9% to € 109.2 million. We again stood out clearly from the sector average with our return on equity of 17.1% before tax. This success is based on the Bank's solid business model which is characterised in particular by long-term relationships to our clearly-defined target customers. At the same time it is flexible enough to adapt to changing market conditions in time.

Based on HSBC Trinkaus' consistent and risk-aware strategy, the resulting earnings strength and integration into the HSBC Group, the rating agency Fitch again confirmed our outstanding AA rating at the end of 2009. HSBC Trinkaus is therefore still the best-rated private commercial bank in Germany.

In light of these good results, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of a dividend of € 2.50 as in previous years.

Especially in the current situation, with many banks withdrawing from individual areas of business and looking for a sustainable business model, our result is the best confirmation of our strategy. The Bank's long-term orientation and strong risk awareness have proven themselves in the crisis. Our customers appreciate that with HSBC Trinkaus they have a reliable partner at their side. International service capacity through integration into the HSBC Group, together with continuity in terms of

strategy and the client servicing expected of a private bank, still offer a unique combination in the German banking landscape which is very popular with clients. The close cooperation with HSBC means that for more and more clients, we are one of the few competent addresses for international business in the German market.

The individual business segments can also look back at very good results and therefore confirm the balanced nature of our business model. In the Corporate Banking business we were able to develop further into a core bank for our existing client base and also acquire new clients. Here, access to our global network often acts as a door opener to new business relationships. The Private Banking segment was also able to expand its business with existing clients and acquire new clients. Significant net inflows in asset management show that private clients are also placing great trust in the Bank in times of financial crisis. Despite a decline in earnings as a result of lower revenues the segment can look back on a successful business year, especially compared to the competition. In the Institutional Clients segment we were able to achieve extraordinary successes, in particular in the business with fixed-income products. We benefited



not least from tighter organisation geared even more closely to our clients and their requirements. In the Issuing Business we benefited from the established cooperation with HSBC's global debt capital markets centres and an excellent market position in Germany and Austria, where we lead-managed a number of transactions. We were able to improve our market position in the traditionally strong retail derivatives trading business; money market trading also gave an extremely positive performance.

Although Asset Management was faced with a difficult market environment, we were able to maintain the volume of assets managed for our institutional clients on a stable level. In addition to our liquidity funds, the investment categories Emerging Markets Debt and Corporate Bonds experienced strong inflows of funds. Far-reaching expertise and a strong performance convinced our clients here in particular.

We want to use the opportunities arising above all from the weakness being experienced by several market competitors in 2010 and beyond. In close cooperation with HSBC and based on our proven business model, we aim to grow significantly in the German market, focusing on the upper SME segment and wealthy private clients. With our approach of offering clients "the best of both worlds", namely personal integrity and client proximity combined with internationality and efficiency, we are sure that we will be able to win over many new clients.

Our successes are based on our employees. The competence, commitment and initiative of each and every one of them form the basis of our business activity. In order to enhance this further, we plan to make comprehensive investments in training and offer advanced training measures again this year as well. While we were anxious to keep our staff numbers constant during the crisis, we now want to expand the number of employees substantially within the scope of our growth targets. In this context, we would also like to further intensify our exchange programme with the HSBC Group. On the one hand, we want to open up global career opportunities for our employees. On the other, though, we also want to increasingly integrate employees from the HSBC network into the German organisation.

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

Yours sincerely,

The Management Board





# Executive Bodies

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# Executive Bodies of HSBC Trinkaus & Burkhardt AG



## **Management Board**

Andreas Schmitz, Chairman

Carola Gräfin v. Schmettow

Paul Hagen

Dr. Olaf Huth

**Düsseldorf**

**Baden-Baden Berlin Frankfurt am Main**

**Hamburg Munich Stuttgart**



### **Executive Committee**

Florian Fautz

Manfred Krause

Trevor Gander

HSBC Trinkaus is in a unique position among the German banks: in a global network as HSBC in Germany and with local connections as a private bank since 1785.

We offer our target groups – wealthy private clients, corporate clients and institutional clients – “the best of both worlds”. We combine a highly personalised and individual service characterised by our traditional values and experience going back 225 years with the financial security and international dimensions of one of the world’s best capitalised and most profitable banks. We guarantee you access to sophisticated financial services, exclusive market information and first-class contacts in 88 countries.

We pursue a lasting business model, maintain long-term client relationships across generations and deal with risks very responsibly. The virtues played out in our corporate culture have always proven themselves,

even in difficult times. This philosophy allows us to emerge from the financial crisis in a stronger position now as well. The trust our clients place in us is based on this.

We stand out through the quality of our offerings in the traditional banking business. Furthermore, we offer you tailor-made concepts for complex tasks which we combine with innovative products and services – worldwide. Our employees ensure that this high standard is met. They are creative, highly committed and solution-oriented with outstanding product and servicing expertise which is constantly being promoted further.

Our business model has proven itself and is geared towards the future. We show major expertise in our core lines of business. Our goal is to grow further with our clients and steadily expand our market position. We face the future well prepared and with optimism.

## Supervisory Board

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

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

Stuart Gulliver,  
Deputy Chairman,  
Executive Director,  
Chairman, Europe and the Middle East,  
HSBC Holdings plc, London

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

Deniz Erkman\*, Krefeld  
Bank employee

Dr. Hans Michael Gaul, Düsseldorf

Friedrich-Karl Goßmann\*, Essen  
Bank employee

Birgit Hasenbeck\*, Düsseldorf  
Bank employee

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

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

Oliver Honée\*, Essen  
Bank employee

Dr. Siegfried Jaschinski (up to 19 June 2009)  
Chairman of the Management Board,  
Landesbank Baden-Württemberg, Stuttgart  
(up to 10 June 2009)

Dr. Otto Graf Lambsdorff, Bonn (passed away  
5 December 2009)  
Lawyer

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

Mark McCombe,  
Chief Executive Officer Hong Kong,  
The Hongkong and Shanghai Banking Corporation Ltd,  
Hong Kong

Hans-Jörg Vetter (from 30 September 2009)  
Chairman of the Management Board,  
Landesbank Baden-Württemberg, Stuttgart

Jörn Wölken\*, Lohmar  
Bank employee

\* Employees' Representative

## Advisory Board

Dr. Otto Graf Lambsdorff (passed away  
5 December 2009),  
Chairman

Professor Dr. Gerd Assmann, FRCP,  
Chairman of the Management Board,  
Assmann-Stiftung für Prävention

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

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

Professor Dr. rer. nat. Dr. med. Dr. h. c. Uwe Bicker,  
Chairman of the Supervisory Board,  
Siemens Healthcare Diagnostics Holding GmbH

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

Baron Wolf von Buchholtz

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

Walter P. J. Droege,  
Droege International Group AG

Heinrich Johann Essing,  
Managing Director,  
HEC Vermögensverwaltung GmbH

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

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

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

Dr. Franz Wilhelm Hopp

Professor Dr. Dr. h. c. Anton Kathrein,  
Managing Partner,  
KATHREIN-Werke KG

Dipl.-Kfm. Sigmund Kiener (from August 2009),  
Owner,  
S. K. Management- und Beteiligungs GmbH

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

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

Professor Dr.-Ing. E. h. Dipl.-Ing. Berthold Leibinger,  
Chairman of the Supervisory Board,  
Trumpf GmbH + Co. KG

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

Professor Dr. Jörg-Andreas Lohr (from September 2009),  
Chairman of the Management Board,  
Flick Privatstiftung,  
Managing Partner,  
Lohr + Company GmbH Wirtschaftsprüfungsgesellschaft

Udo van Meeteren

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

Ludwig Merckle  
Merckle Group

Dr. Markus Michalke,  
Managing Director,  
MIC Asset Management GmbH

Hildegard Müller (from July 2009),  
Member of the Presidium,  
Chairman of the Executive Board,  
BDEW Bundesverband der Energie-  
und Wasserwirtschaft e. V.

Karsten Müller-Uthoff,  
Managing Director,  
Ärzteversorgung Niedersachsen

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

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

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

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

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

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

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

Professor Dr. Klaus Schweinsberg (from June 2009),  
INTES Akademie für Familienunternehmen GmbH

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

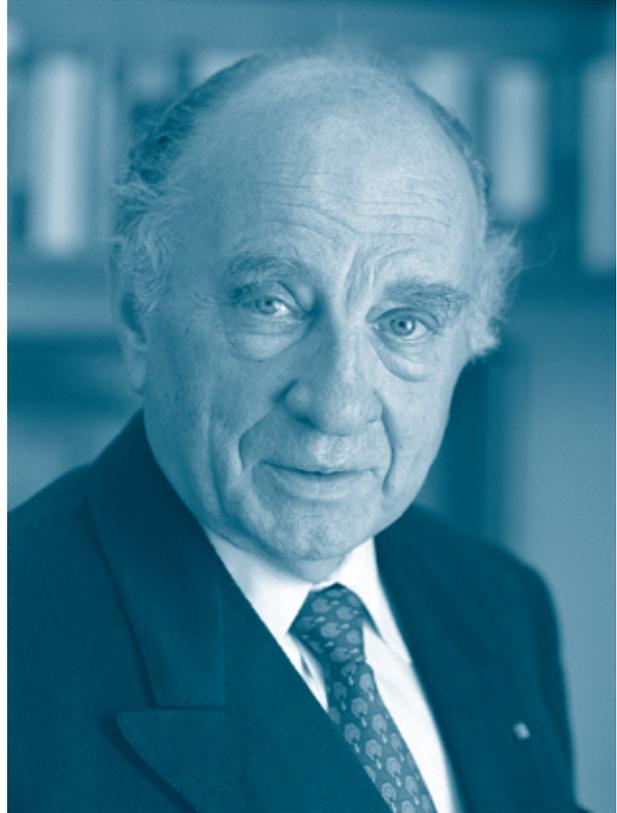
Helmut Späth,  
Deputy Chairman of the Management Board,  
Versicherungskammer Bayern

Thomas Unger,  
Deputy Chairman of the Management Board,  
Metro AG

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

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

## ► Obituary: Dr. Otto Graf Lambsdorff (1926 – 2009)



HSBC Trinkaus lost its highly esteemed Chairman of the Advisory Board and member of the Supervisory Board, Dr. Otto von der Wenge Graf Lambsdorff, in December 2009.

Graf Lambsdorff was appointed Chairman of the Bank's newly-created Advisory Board in 1986 and member of the Supervisory Board in 1988. By assuming these offices, Graf Lambsdorff continued his personal commitment to the Bank for which he worked for over a decade in the syndicate business and Management Secretariat, finally in the position of Chief Representative.

After his Doctorate of Law, his Assessor examination and completing the initial years of his career, Graf Lambsdorff joined C. G. Trinkaus in 1960. Among other things, he was responsible for building up the business with institutional clients which became an important source of earnings for the Bank. He left the Bank in 1971 and in the following years played an active role in key economic and political positions, in particular as Federal Minister of Economics, in shaping the res publica in Germany.

As Chairman of the Advisory Board and member of the Supervisory Board, Graf Lambsdorff was a highly esteemed interlocutor for the members of these two bodies as well as for the Management Board, Employees' Council and employees of the Bank. With his comprehensive wealth of experience and sharp analytical skills, he brought results to the point and provided thought-provoking impetus which decisively furthered the Bank.

In Graf Lambsdorff we have lost a huge personality who, with his advocacy of the firm establishment of ethical values as obligatory goals of corporate management, had a decisive influence on the lasting culture of our Bank and our responsibility to the common good over many years. We and our employees feel committed to the continuation of this tradition and guiding principle as an expression of our thanks.

We will remember Otto Graf Lambsdorff as a trusted friend of the Bank.



# Group Management Report

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# Structure and Management

## The Group

The HSBC Trinkaus & Burkhardt Group comprises 17 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
<b>HSBC Trinkaus &amp; Burkhardt (International) SA</b> Luxembourg	<b>HSBC Global Asset Management (Deutschland) GmbH</b> Düsseldorf	<b>Grundstücksgesellschaft Trinkausstraße KG</b> Düsseldorf
<b>HSBC Trinkaus Investment Managers SA</b> Luxembourg	<b>HSBC Global Asset Management (Österreich) GmbH</b> Vienna	<b>Joachim Hecker Grundbesitz KG</b> Düsseldorf
<b>HSBC Trinkaus Investment Management Ltd.</b> Hong Kong	<b>HSBC Global Asset Management (Switzerland) AG**</b> Zurich	<b>HSBC Trinkaus &amp; Burkhardt Gesellschaft für Bankbeteiligungen mbH</b> Düsseldorf
<b>Internationale Kapitalanlagegesellschaft mbH</b> Düsseldorf	<b>HSBC Trinkaus Real Estate GmbH</b> Düsseldorf	<b>Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH</b> Düsseldorf
<b>HSBC INKA Investment-AGTGV</b> Düsseldorf	<b>HSBC Trinkaus Family Office GmbH</b> Düsseldorf	
<b>HSBC Transaction Services GmbH*</b> Düsseldorf	<b>Trinkaus Private Equity Management GmbH</b> Düsseldorf	

\* renamed, formerly International Transaction Services GmbH (ITS)

\*\* joint venture with HSBC Global Asset Management (France), Paris, established in 2009

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

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

## Constitution of the Company

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

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

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

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

In accordance with the resolution passed by the Annual General Meeting 9 June 2009, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or, if this cannot be determined, on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10%. The number of shares bought for this purpose may not amount to more than 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2010.

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

### **Basic Features of the Compensation System for the Executive Bodies**

The Supervisory Board has delegated its responsibility for determining the compensation of Management Board members to the Personnel Sub-committee of the Supervisory Board. The members of the Personnel Sub-committee of the Supervisory Board in the 2009 financial year were Dr. Sieghardt Rometsch (Chairman) and Harold Hörauf. The Personnel Sub-committee met four times in the 2009 financial year. With the Act on the

Appropriateness of Management Board Compensation (VorstAG) the German Stock Corporation Act (AktG) has been amended to the effect that the entire Supervisory Board must now decide on the compensation of the Management Board. The rules of procedure for the Supervisory Board were adapted to the amended legislation in November 2009. As a result, the Personnel Sub-committee now only has an advisory function with a view to the compensation of the members of the Management Board.

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The cash component amounts to at least 50% of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50% of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013.

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

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2009 financial year can be found in Note 68 "Business Relationships with Companies and Persons Defined as Related Parties".

The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published.

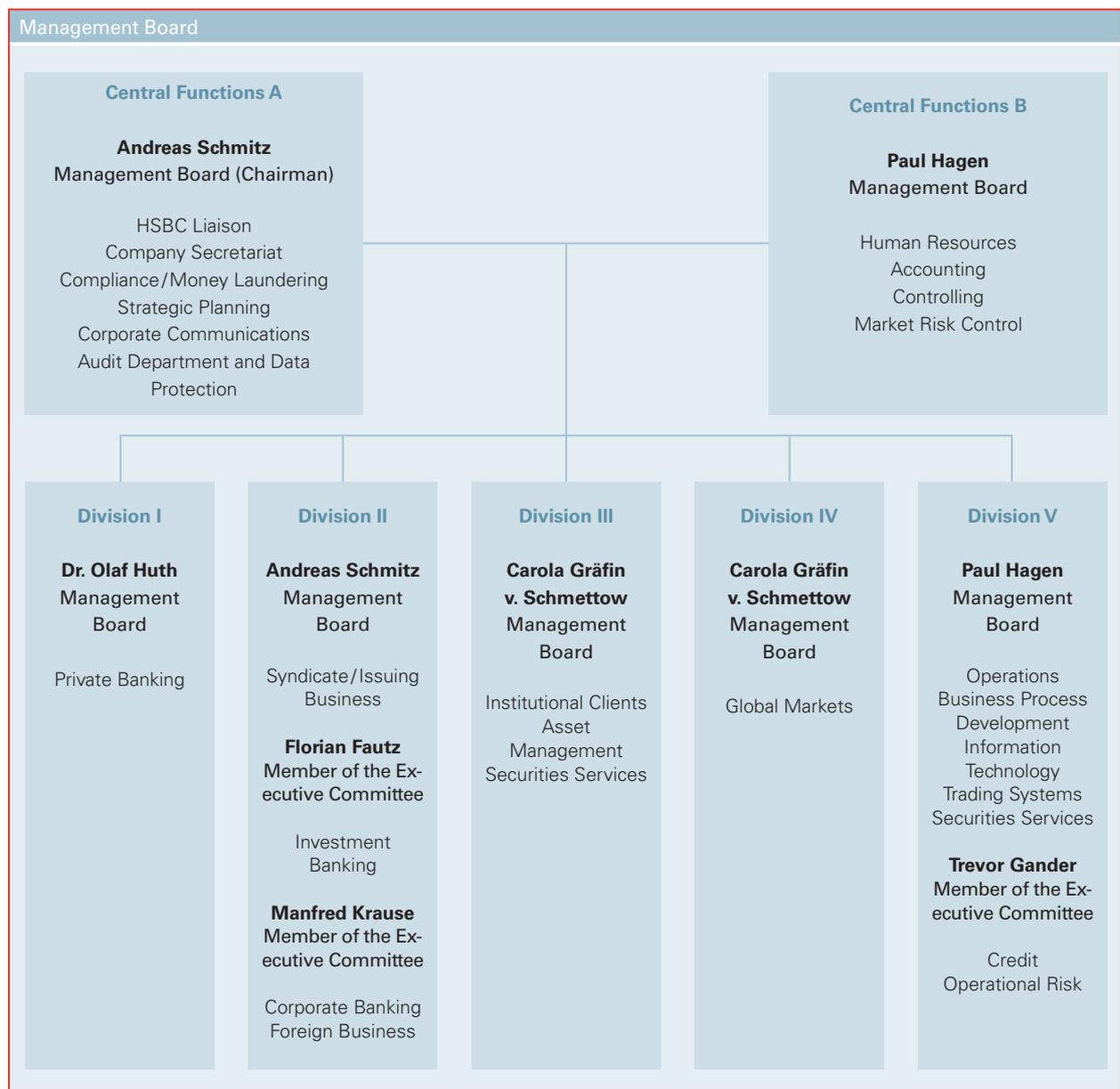
The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a sub-committee receive one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a sub-committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2009 financial year is reported under Note 68 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

# ▶ The Business Divisions

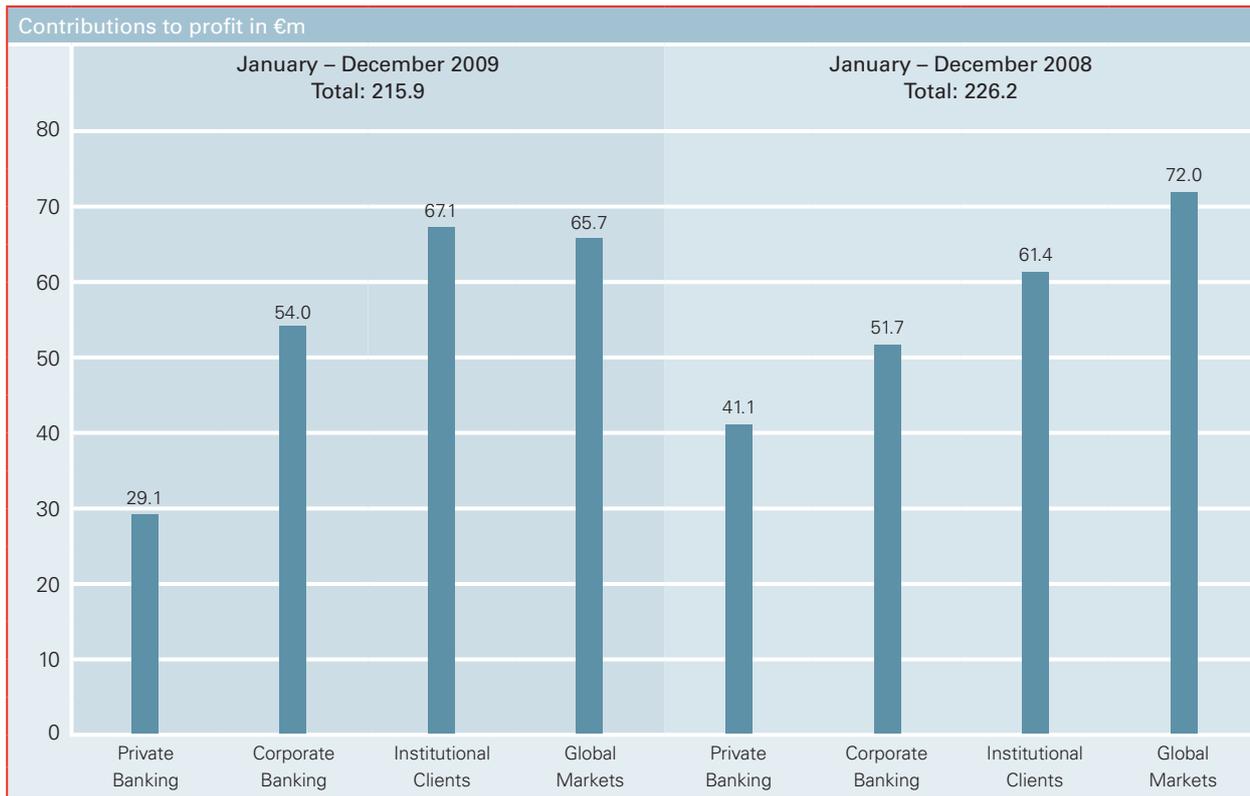
Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Florian Fautz, Trevor Gander and

Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.



Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs

to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial cost allocation.



After deduction of the € 19.5 million net costs incurred by head office functions during 2009, as against € 25.6 million for 2008, the 2009 operating profit was € 196.4

million (2008: € 200.6 million\*). Mean contributions to profits over the last five years reveal a balanced picture:



## Strategic Direction

The ongoing crisis continues to put major pressure on the economy and the financial markets in the 225th year of our history. However, the focus of crisis management is now being shifted away from short-term bailout measures towards a long-term reorientation of the financial markets that can even include major shakeups.

Governments and central banks had to act primarily as a rapid deployment force last year and, in order to stabilise the system, save banks irrespective of the quality of their business model. In Germany, this even led to the nationalisation of one individual institution which attracted major media attention. The primary task of governments, regulators and central banks will now be to create an internationally valid framework which allows the banks with a functioning business model to place themselves on a stable foundation again and which forces the banks without a sustainable business model to consolidate or wind up. This framework will have to guarantee at the same time that an incipient crisis of this dimension can be identified and prevented in future. A second major challenge the central banks will have to face is the controlled withdrawal of the large amounts of liquidity which were pumped into the markets last year.

Even though the banks appear to be gradually recovering, economic indicators are already giving off positive signals again and there has been no sharp increase in unemployment so far, we nevertheless do not expect the German economy to declare the crisis over in 2010.

The slump in overall economic output of around 5% in the year of crisis in 2009 is reflected in the financial statements of many companies now being published. In regional terms, the percentage is far higher in individual cases.

This of course feeds through to the companies' credit standing, which in turn has repercussions for the banks' capital requirements with respect to lending. Consequently, their ability to grant new loans will be limited precisely at the moment when a possible upswing has to be financed. Politicians and bankers will accordingly have to continue to work hand in hand to avoid a credit squeeze and provide the basis for an economic recovery.

HSBC Trinkaus' position proved itself again in 2009. This shows that the business model functions not only in good times, but also – in contrast to many other financial institutions – in the severest financial and economic crisis since the Great Depression of 1929.

Based on a traditionally conservative stance, HSBC Trinkaus has developed and cultivated the ability to adapt to changes in the markets in good time and adjust its business model accordingly.

The overall economic environment will remain a challenge for HSBC Trinkaus and the entire sector in the months ahead and beyond as well. But it is exactly in this market situation that our strengths come into their own more than ever before. Our proven business model with its consistent orientation to clearly defined target groups and risk-aware trading will continue to form the basis for successful business performance. In addition, as a member of the HSBC Group we offer "the best of both worlds", namely the continuity, professionalism and individuality of a private bank together with the international service capacity and capital strength of a global financial services provider.

With this unique combination in the German banking landscape, we have been able to position ourselves especially in the financial market crisis as a trustworthy and solid partner, strengthen the commitment of our existing clients and acquire many new clients.

We want not only to consistently continue on this path, but also to use the opportunities arising for a globally operating bank on account of the distortions on the German banking landscape even more selectively through targeted investments in the market. The focus here lies on growth in the business with the upper and in particular the internationally oriented SME segment as well as the business with wealthy private clients. In addition, we will make targeted efforts to strengthen our product range in the institutional business so that we can do even more justice to our claim of being a core bank in this client segment as well.

Irrespective of this, we will continue to pursue our proven, conservative risk policy during this growth – true to the motto: we grow with our clients, not with our risks.

On the product side, naturally we offer our clients all the services of the traditional banking business, but we also distinguish ourselves in particular by the fact that we stand by them in solving complex problems on the national and international level. We are traditionally strong in the entire product range of the securities business, in interest rate and currency management, in international services and asset management as well as in the individual servicing of wealthy private clients. Our expertise in the capital and credit markets is also appreciated and used by our clients. By continuously updating our information and communication system, we ensure the most advanced banking technology and services of the highest quality in all product segments.

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

- We concentrate on the target groups of wealthy private clients, corporate clients and institutional clients, and we aim to expand our activities with existing and new clients in all of these segments, provided there is a balanced risk/earnings profile.
- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and new clients from our target groups. Our decisions are made with the focus on our clients, and we attach the greatest importance to personnel continuity in servicing our clients.
- Our trading activities serve primarily to support the client segments and provide a comprehensive product range. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.
- Innovative and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise value-added for our

clients and for the Bank. The basis of every good client relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions and is therefore of major importance for us.

- We are constantly expanding our service offerings in the securities business for clients and for other financial institutions. With our two securities settlement and fund administration subsidiaries – HSBC Transaction Services GmbH (formerly ITS) and Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) – we offer highly qualified services at competitive prices. Both subsidiaries show significant strength in their respective markets. Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank services and global custody services as well as in asset management in Germany and Austria with HSBC Global Asset Management.
- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional networks in 88 countries.

The success of this strategy depends on whether we continue to satisfy the following conditions:

- We must offer our clients unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing on a private-bank level.
- We must continue to focus the business relationship with our clients on trust and sustainability. Only on this basis can clients and advisors work together to find optimum solutions against the backdrop of a growing variety of products.
- We must provide a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value-added chain so that we can offer our services at a competitive price and in a client-friendly manner.

- We must invest in the qualification of our employees through targeted training and advanced-training measures in order to do justice to the growing complexity and internationalisation of our business.
  
- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

Future needs tradition. In this respect we are very pleased to be able to celebrate the 225th anniversary of the Bank's foundation this year. Our anniversary motto is at the same time an expression of the stance we take: Committed to values.

# The 2009 Financial Year

## General Economic Setting

The global economy got off to anything but a successful start in 2009. The major loss of confidence in the economy as a result of the financial crisis brought about a breakdown in investment activity and a slump in world trade in the months around the turn of the year. The latter made itself felt in particular in Germany, which suffered a decline in gross domestic product (GDP) compared to the previous quarter of 3.5 % in the first quarter of 2009 owing to its major dependence on the export sector. There were even fears at the time that the global economy was facing a depression. However, the international coordination of monetary and fiscal policy was able to halt the downward spiral. For example, the European Central Bank (ECB) lowered the key interest rate to 1.0 % until May and made unlimited liquidity available to the banking system over the entire year. The promise to prevent the insolvency of further system-relevant banks made within the scope of the G20 meeting in London at the beginning of April in particular made a significant contribution to restoring confidence.

The Asian region, which was the quickest to return to its growth path thanks to high savings ratios, a solid banking system and major government economic aid, turned out to be the driving force behind the ensuing upswing. The German economy was also able to grow again in the second quarter, thereby putting an end to its recession. The Eurozone only managed to return to its expansion path in the third quarter. In addition to the stabilisation of world trade, the increase in sales in the automotive industry as a result of the wrecking bonus made a particular impact in Germany. The labour market was a further reason for the relatively solid private consumption in Germany. Considering the strength of the economic slump, there was only a moderate increase in unemployment. The short-time working benefits introduced by the government made a significant contribution to this development. The expenditure resulting from this and other measures to support the economy led to a major budget deficit in relation to GDP of 3.2 % in 2009. Below the line there remains a sobering balance for the 2009 business year with a decline in German GDP of around 5 %. The pressure on prices remained weak in this environment, with consumer prices increasing by only 0.4 % on average for the year.

The rescue packages introduced by governments and central banks throughout the world also left their mark on the financial markets. After getting off to a weak start, greater investor confidence led to the DAX ending 2009 with an increase of around 24 %. Significant price gains were also achieved with corporate bonds owing to a significant reduction in risk premiums. Driven by low central bank and money market rates among other things, European government bonds also ended the year with a clearly positive performance.

## Profitability

With an increase in net profit for the year of 21.9 % to € 109.2 million, HSBC Trinkaus achieved a very solid result in the year under report providing evidence of the strength of our effective and client-oriented business model. This result enables us to pay an unchanged dividend compared to the previous year of € 2.50 per share and further strengthen reserves. Operating profit including net loan impairment and other credit risk provisions was down slightly on the previous year by 2.1 % to € 196.4 million. At 68.3 % the cost:income ratio as the main indicator of success remained within the adequate range for our business model of 65 % to 70 %.

The impact of our business model on the 2009 result varied considerably. On the one hand we were able to grow further in the business with corporate and institutional clients as well as trading, in some cases expanding our market position significantly. Benefiting from our financial strength, we were able to use the opportunities resulting from the major changes in the banking landscape. We want to remain firmly on this path, especially as the consolidation of the banking markets has only just begun. But we will continue to carefully weigh up the risks and opportunities and ensure that each client relationship is profitable.

On the other hand, we suffered a decline in revenues in the private banking business and had to make a considerable addition to net loan impairment and other credit risk provisions in the corporate banking business again for the first time in many years. Revenues in the private banking business declined due above all to the low interest rate policy pursued by the central banks, the sharp reduction in margins in the deposit business resulting as well as the restraint shown by investors in this uncertain

stock market environment. Nevertheless, with our sustained client orientation and deliberately cautious market operations, we see good opportunities for us to grow further in this client segment as well, benefiting at the same time from changes in the competition. We continued to apply strict standards to net loan impairment and other credit risk provisions, carefully considering the still difficult economic environment in Germany with a further addition to collectively assessed impairments.

The individual items of the income statement developed as follows:

Net interest income was up 2.7 % to € 143.3 million. This is the result of widely varying trends in our business:

- There was a sharp decline in margins in the deposit business on account of the central banks counteracting the economic crisis with an easy money policy. We deliberately reduced the volume of deposits as we make no compromises with respect to the profitability of our business given our extremely good liquidity situation.
- On the other hand, margins in the lending business improved significantly owing to a clear move towards risk-adequate prices. Credit volumes declined slightly on average for the year as our clients have only relatively minor borrowing requirements in the current cyclical phase and have significantly tightened their working capital management. Order intake picking up again will lead to significantly greater borrowing requirements. We were able to increase our market share as we further expanded the business with clients with a good financial standing on a targeted basis thanks to our good capitalisation.
- Interest income from financial assets benefited in particular from our extremely good liquidity position.

We had to make a substantial addition to net loan impairment and other credit risk provisions again for the first time in several years. Both individually assessed impairments and collectively assessed impairment were increased significantly. On the other hand, we were able to reverse several individual impairments again in the year under report as well. Overall, we continue to apply strict standards to the assessment of default risks. The further course of the economic crisis will present a particular challenge to risk management in the lending business in the entire banking sector since the number of insolvencies is a lagging economic indicator. Thanks to the generally cautious approach we take to entering into risks, we see ourselves as relatively well equipped for the challenges that lie ahead.

At € 346.2 million in the year under report (2008: € 347.6 million) net fee income remains high and is by far the most important earnings component. Widely varying trends in our business are reflected here as well:

- In the securities business we were able to increase our result in a year-on-year comparison by 2.2 % to € 236.7 million despite a weak first half of the year. The consistent expansion of our depositary bank business made a significant contribution to this success. On the other hand, there was a substantial reduction in asset management revenues as the willingness of wealthy private clients to take risk and the risk-bearing capacity of institutional investors were not very pronounced.
- Net fee income from foreign exchange transactions and derivatives declined notably. The achievable margins in both the foreign exchange business and the business with interest rate and equity derivatives were significantly below the high prior-year level.
- In the traditional banking business such as credit business and payments there was a substantial increase in net fee income as we were able to use changes in the competition to our benefit. On the other hand, in the foreign business we were only able to partly compensate for the decline in the German economy's foreign trade with more risk-adequate margins.

- There was strong growth in the results in the issuing and structuring business in the year under report as we were represented very prominently in a large number of bond syndicates thanks not least to the strong placement power of the HSBC Group.
- The successful placement of a closed-end real estate fund is reflected positively in the real estate business.

Operative trading profit grew significantly by 20.1 % to € 117.9 million. Our proprietary trading activities remain focused on trading with equity-related products. We were once more able to gain market shares here in the retail business under our HSBC Trinkaus brand. The market for these products has become far smaller overall, above all with respect to products with a capital guarantee and other investment certificates. However, as we are traditionally very strong with respect to products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately. In foreign exchange trading we were not able to repeat the very good prior-year result as the margins tended to weaken again after the rise the previous year. Interest rate trading on the other hand generated an extremely good result of € 46.2 million compared to € 2.4 million. Firstly, money market trading was again able to achieve a very good result on account of our liquidity position and client-related trading with registered Pfandbriefe and promissory note loans also did far better than in the previous year. Secondly, the bond portfolios also gave a particularly pleasing performance. The spread widening with respect to public-sector bonds, Pfandbriefe and bank bonds the previous year was now followed by significant spread narrowing to a large extent. The resulting strong valuation gains led to extraordinarily good net trading income. Since the markets have largely calmed down in the meantime, we see the past two years as characterised by crisis and therefore not representative of our result from interest rate trading.

Net trading income according to IFRS also includes profits from derivatives in the bank book of € 5.1 million resulting primarily from the hedging of a loan within the scope of our real estate business.

Administrative expenses were up 4.3 % to € 400.8 million. This includes a 2.4 % increase in personnel expenses to € 237.9 million, the result on the one hand of the slight increase in the number of employees in order to continue our growth strategy. On the other, the contribution to the Pension Security Association was significantly greater than in the past in the wake of the economic crisis. Thanks to our consistent cost management other administrative expenses rose moderately by 2.2 % to € 137.4 million. The increase was due mainly to the significantly higher contribution to the deposit guarantee fund in light of the financial market crisis. There was also a substantial increase in the depreciation of intangible assets. As weaker synergies made it necessary to adjust the business planning, partial goodwill amortisation was required.

Income from financial assets includes both realised losses of € 9.5 million and unrealised valuation losses of € 25.7 million. These are set against realised gains of € 9.4 million as well as write-ups on bonds of € 1.8 million. This means that income from financial assets was considerably better than in the previous year, but not satisfactory. As regards the valuation of our strategic financial assets, we have made no compromises in terms of our strict valuation standards. Instead, we have used the market value on the balance sheet date as a valuation rate for all equity holdings in the Annual Financial Statements if there has been a reduction in value of more than 20 % or for longer than nine months. However, an impairment reversal, as already began in the second quarter and continued to the end of the year, is not reported in the income statement, but in retained earnings according to IFRS. For bonds we have assessed the respective issuer risk individually and applied stringent standards, as is the case with net loan impairment and other credit risk provisions. An impairment can only be reversed where the original reason for impairment ceases to apply. Market values are calculated predominantly on the basis of market data taken from active markets, either directly based on market prices or using valuation models, which resort exclusively to observable parameters. As this is not possible only in individual cases, we have estimated individual parameters ourselves instead.

## The asset situation

Total assets declined by 15.7 % in the year under report to € 18.7 billion. On the assets side, there was a decline in particular in trading assets compared to the previous year of 19.8 % to € 10.0 billion. Loans and advances to customers were down by 34.2 % to € 2.7 billion and loans and advances to banks by 18.5 % to € 2.4 billion. On the other hand, financial assets increased by 47.5 % to € 3.1 billion.

The decline in trading assets is the result firstly of a decline in the positive market values of derivatives which corresponds with a commensurate decline in the negative market values of derivatives in trading liabilities. This reflects market movements of foreign exchange transactions and interest rate derivatives above all. Secondly, there was a substantial decline in trading assets as investments were reduced significantly in the HSBC Group. These were mainly of a very short-term nature and served primarily the temporary investment of the extremely high volume of customer deposits at the previous year-end. Instead, we continue to strengthen our financial assets in the year under report. These consist largely of eligible bonds or promissory note loans issued by German federal states and can therefore be used for creating liquidity on a very short-term basis. Short-term realisability and eligibility is also an important decision criterion in the trading books. Our interest rate trading books include no positions resulting from acquisition financing or other transactions for which there is no longer a market today. The Bank has constantly avoided so-called toxic products.

There are various reasons for the decline in loans and advances to customers. The lower lending requirements of our clients were a significant factor here first of all since we continued to pursue our strategy in the client lending business of growing with our clients and dispensing with synthetic lending business. Even as times have become difficult, HSBC Trinkaus is a reliable partner for its clients and will remain so even in the event of a cyclical recovery and the higher borrowing requirements associated with it. The discontinuation of special transactions as well as the balance-sheet-date-related decline in the volume held on current accounts strengthened the effect with respect to loans and advances to customers. The decline in loans and advances

to banks was mainly balance-sheet-date-related, with a large part of the decline attributable to deposits at other HSBC units.

On the liabilities side, customer accounts declined by 21.8 % to € 9.1 billion and trading liabilities by 15.5 % to € 5.2 billion. The recovery of the capital markets led to an increase in the level of investment of the investment funds clearly at the expense of short-term deposits. The decline in trading assets is the result firstly of the shrinking certificates market in Germany and secondly of the decline in the negative market value of derivatives already commented on above. Our balance sheet is nevertheless still characterised by very high levels of customer deposits which account for more than three times our client lending business and almost 50 % of total assets. Thanks to this excellent liquidity position, we were able to easily compensate for the further slight decline in the volume of certificate and warrant placements.

## The financial position

The Bank's liquidity position was very good throughout 2009. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.84 for the end-of-month positions according to the Liquidity Ordinance. In addition, we developed our monthly simulation calculations for the management of liquidity under normal and under stress conditions in close cooperation with the HSBC Group in the year under report. We have documented the main guidelines of our liquidity risk management in a comprehensive liquidity risk strategy.

Since 1 January 2008 we have been calculating the regulatory capital requirements according to the rules of the German Solvency Regulation (Solvabilitätsverordnung), via which the Basel II framework was adopted into national law. We continue to make use of the transitional provision under Section 64h para. 4 German Commercial Code (HGB) and when determining the adequacy of the capitalisation of the HSBC Trinkaus Group apply the procedure pursuant to Section 10a para. 6 German Banking Act (KWG). HSBC Trinkaus uses the internal-rating-based approach for counterparty risk and the basic-indicator-risk

approach for operational risk. We further improved processes and attached greater importance to the consideration of security in the year under report.

In a reporting date comparison, the HSBC Trinkaus Group's positions requiring equity backing according to the regulatory provisions declined overall by 8.6 % to € 7.8 billion. The credit risk positions requiring equity backing declined by 13.2 % to € 5.9 billion. This is the result above all of the optimisation of our credit portfolio as well as the extended use of techniques of credit risk mitigation. The backing for market risks remains almost unchanged while a significant increase in backing for operational risks of 18.4 % to € 1.1 billion was needed in accordance with the regulatory requirements owing to our positive trend in earnings in recent years.

No capital increases were carried out in the HSBC Trinkaus group in 2009, not even for supplementary capital. However, HSBC Trinkaus & Burkhardt AG transferred € 130 million from the previous year's profit available for distribution to retained earnings in the year under report. We therefore see ourselves as still well equipped for the challenges presented by the banking business in Germany on the one hand and for further growth on the other. After the appropriation of profit we show a capital ratio of 14.8 % and a Tier 1 ratio of 10.4 %, which by far exceeds the banking supervisory requirements. We are in an excellent position even against the backdrop of the proposals to tighten the capital requirements for loan security currently being discussed in reaction to the financial market crisis. It is to be taken into consideration here in particular that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves.

## Outlook for 2010

The global economy started out on the road to recovery over the course of 2009 and will continue along it this year. It will be propelled along in particular by the global continuation of expansionary monetary and fiscal policy. Positive impetus should also come from the inventory cycle since inventories are still at a very low level. The role of growth driver will be taken on by the emerging markets, where economic output is likely to grow by 6.2 % in 2010. But developed economies should also expand by 1.9 % after suffering a decline in gross domestic product last year.

The German economy is likely to benefit primarily in the export sector from the recovery of the global economy in 2010, leaving the other major economic regions of the Eurozone behind it with seasonally and calendar-adjusted growth of 1.6 %. We are expecting aggregate GDP growth of 1.2 % in the Eurozone. In this respect, there is no sign of a rapid return to the level of economic output reached before the crisis. The utilisation rate will therefore remain low. As we are also assuming a further rise in the unemployment rate and a higher external value of the euro, we expect the low pressure on prices to continue. There is therefore no need for the ECB to take immediate action. Against this backdrop we are not expecting a significant increase in capital market yields.

The German banking sector is in the middle of a crisis of unforeseen proportions which several leading institutions will only be able to survive with the help of the federal government and federal states. Some banks have only been saved from insolvency because the government has provided them with support in the form of taxpayers' money going into billions. The collapse of Lehman Brothers exemplifies the extent of the systemic risk in the global banking system. The support measures adopted by governments worldwide have prevented the collapse of further banks at risk and therefore the exacerbation of the crisis.

There is intense discussion at present over the regulatory measures with which governments want to prevent such a financial crisis arising again. These measures will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on business with three clearly defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far

closer to the objective of the global regulators than those of banks with strong investment banking activities and major dependence on proprietary trading.

We see our business strategy as confirmed by the current discussion. Since our overall client-focused orientation is not being questioned, HSBC Trinkaus' fundamental strategy will not be affected by the expected adjustments to the new regulations.

We therefore want to use 2010 and the years ahead to gain additional market shares in all business segments. The focus is on the significant expansion of business with SME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

The basis for this expansion strategy is:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities.
- integration in the HSBC group, one of the world's largest and most financially sound banking groups which, like HSBC Trinkaus, did not have to resort to support from government bailout packages.
- a strong own balance sheet with solid capitalisation and a good refinancing base.

An expansion strategy in an economic crisis means higher risks, but also greater opportunities. The drastic economic downturn has put pressure on the earnings situation and the capital position in several, particularly export-oriented, industries. We are convinced, though, that there are companies even in difficult sectors with major innovative power, clearly focused business models and ambitious management which will emerge from the crisis in a stronger position. We know that expanding the portfolio in particular with SME corporate clients entails risks in the current economic situation and could lead to greater risk provisioning expenditure. On the other hand, the credit margins already reflect this situation today at least in part. As other banks tend to withdraw, we are confident that we can grow in the market without lowering our credit standards.

We experienced favourable price gains on the stock markets and a good bond market performance especially in the corporate bond segment from the beginning of the second quarter of 2009. Both had a positive impact on bank income statements. However, we do not believe that this trend will repeat itself in 2010.

There will be a decline in the overall volume of bank revenues in Germany in 2010 which will also continue in the following years. We can therefore only increase our revenues by realising the targeted gain in market shares. Net interest income will play a more important role than in 2009 as income from fees and commissions will remain under pressure. The reasons for this are the uncertainties on the equity markets as well as the restraint and reduced willingness to take on risk shown by the clients. Strict cost management is decisive in this situation. We are expecting only a moderate increase in our administrative expenses in the years ahead, but will make sure at the same time that the infrastructure is lastingly strengthened by sufficient investments. We plan to increase our operating profit compared to 2009 and assume that we can experience a positive trend in operating profit in the following years as well.

The precondition for this is that stock market prices do not fall sharply again, for example as the result of a double dip which the economy could suffer when the government economic support programmes come to an end. In addition, the pressure arising from credit risks is not likely to grow significantly beyond the level of risk provisioning in 2009. We anticipate that the credit ratings of individual companies to which we are linked via medium- and long-term financing commitments will deteriorate in 2010. This applies in particular to the export-oriented sectors. As our credit portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast. Firstly, negative repercussions on the money and capital markets with a corresponding decline in our securities commission would then be expected. Secondly, doubts over the stability of banks with a high exposure in problem countries could develop into a systemic risk.

We regard a target cost:income ratio ranging between 65 % and 70 % as adequate for our business model as a universal bank with a wide range of products. With a ratio of 68.3 % we were in the target corridor in 2009. For the current financial year and for 2011 we again anticipate a ratio in the upper half of the corridor.

We are expecting differing trends in each of our client segments. Revenues in the business with wealthy private clients declined in 2009. We hope that our efforts to acquire new clients will lead to higher revenues. The performance we are expecting in important assets classes will presumably make broad diversification of assets even more important than to date. We are confident that we will be able to expand our market position and are open to acquisitions in this client segment. Based on the good performance of our clients' assets, the concentration on the professional management of large assets and our broad service offerings, we have strong arguments on our side.

HSBC Trinkaus' collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Foreign competitors are withdrawing from the market as the capital support they received has made them dependent on their governments and they are having to concentrate on business in their domestic market as a result. This withdrawal presents a particular challenge for the supply of loans to the German Mittelstand. Our new expansion strategy, which also includes an extended service offer, will enable us to further increase our credibility as a reliable partner in the corporate banking business. The procyclicality of Basel II, as well as the expected further deterioration in the credit ratings of export-oriented clients in particular, will lead to an increase in capital backing in the lending business. We have already made allowance for this in our strategy. The growth in our client base in recent years together with our new expansion strategy suggests that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The currently low interest-rate environment is making it difficult for many institutional investors to achieve their target returns. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. As we have taken a cautious approach to high-risk structures, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available to our clients. We also have direct access to the global trading books, which also enable large-volume transactions and the assumption of risk, and can thus offer added value. We can only offer our clients limited risk capital for new investments in 2010. Owing to this and the slow-down in momentum in the debt capital market business, we expect transaction volumes and the associated earnings contribution to decline.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. We benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is far below the high volume seen in previous years and is limiting the earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2009. The earnings contribution in the Treasury business is likely to be significantly weaker as further interest rate cuts are hardly to be expected.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration into the HSBC Group. In order to avoid operational risk, we will introduce additional business process controls, even if this is

accompanied by further costs. It is obvious, though, that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs. We therefore want to make greater use of the service centres of the HSBC Group in 2010 and the following years also for other areas of the Bank based on our very positive experience in IT.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 10 % of risk assets enables the return-oriented expansion of our business. At the same time, we are in the position if need to be able to carry out a capital increase for earnings-oriented growth. We will carefully observe the effects of regulatory changes which could lead to increased capital requirements. Where necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depository bank activities.

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

# Risk Management

## Definition

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

## Principles of risk management policy

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

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

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

Since the beginning of the banking crisis, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. This was shown clearly by the spectacular collapse of the US investment bank Lehman Brothers and the numerous government support mea-

asures introduced for individual banks in financial difficulties. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2009 as well. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital market to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds.

The second central challenge facing our risk management was and is managing counterparty risk. When the crisis began in the second half of 2007, the primary focus to begin with was on the default risks of other financial market participants; these risks were mitigated later on by government equity support and assistance with liquidity and replaced by an increasingly critical view of country risks. The problems in Iceland in 2008 and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public. Even the solvency of Eurozone member states was, and is again at present, being questioned.

The impact of the economic downswing on corporate loans came more to the fore in 2009. Corporate credit ratings deteriorated on account of the recession, and this trend continues. This will put the banks' corporate lending portfolios under major pressure in 2010 as well, a development we take into consideration in our credit risk management.

HSBC Trinkaus' market risk management was faced with a major challenge until early 2009. The situation eased then considerably from April 2009 on. In trading with derivative equity products, we were able to expand our market share by quoting reliable prices for warrants and certificates at all times. This involved an increase in gap risks which we were easily able to integrate into the Bank's capacity to assume risk, though. The trading books for controlling throughout the Bank suffered substantially in the first three months of 2009 from the widening of spreads, which exceeded expectations. However, they recovered over the further course of the year in line with the market trend. We will continue to develop the limit system based on this new experience.

What we are observing overall is that the higher risk in nearly all areas of the banking business since mid-2007 requires an increase in risk premiums.

## Risk management – organisational structure

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

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

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

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

This is why short routes to the management, awareness of the risks entered into and the constant further development of risk management are decisive.

We implemented the new minimum requirements for risk management (MaRisk) on time at the end of 2009 and are preparing ourselves actively for the new requirements relating to liquidity risk.

## Strategic risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Strategic risk results primarily from the Bank's strategic orientation. HSBC Trinkaus is particularly exposed to such risks as there is strong competition for our clients in the market owing to their major significance.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offerings for wealthy private clients, can only counteract this risk to a limited extent. To a certain extent, we can counteract this risk in a targeted way thanks to our stronger collaboration with the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

It is too early to judge at present whether HSBC Trinkaus' strategic situation will deteriorate because several competitors in the German banking market are using government state rescue packages to strengthen their equity and for state guaranteed refinancing. The risk premiums for counterparty risk have increased in the market in general and are tending to allow the risk-adequate pricing of banking services at present, although this trend is already starting to wane again. However, if the adjustment of risk premiums on account of government support is not lasting, it will mean the systematic distortion of competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation.

We made no substantial progress with the further modernisation of our IT architecture in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial re-

sources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. We completed the relocation of the computing centres to more modern locations with far greater operational security in the year under report. As a result, operational risk has been reduced, but the cost base has risen.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already repeated many times, that not more, but more effective regulation is required, will be implemented. The transfer of tasks stipulated by the government to the banks, such as money-laundering control and tax collection, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to a substantial increase in the Bank's fixed costs irrespective of its earnings opportunities. The regulatory costs are taking on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly. An increase in equity committed per transaction is foreseeable. The decline in the return on equity at the same time will have a fundamental effect on the structures of the banking business. HSBC Trinkaus is already actively preparing for the coming changes.

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

On a positive note, the Bank's strategic orientation has proven itself in the current crisis.

## Counterparty risk

### (a) Organisation of the credit processes

Counterparty risk may be subdivided into credit and counterparty risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a business partner on a

contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

The organisation of our credit department has been tailored to the size of the Bank's lending business and its target groups, thus enabling us to process and evaluate all counterparty risk in a professional and timely way.

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

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

We comply consistently with the minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin). In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

The Bank's central Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to current requirements on a regular basis.

The Bank uses a 22-stage rating system to classify the credit quality of its corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and collateral agreements if required. In the

private banking business, an internal risk assessment is carried out on expert level and a credit rating assigned accordingly. However, the lending business is of minor importance in this client segment and is carried out on a collateralised basis as a rule.

The rating system for the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from his/her financial data. We developed this component with the help of internal client data. This is supplemented by an expert system which gives a qualitative evaluation of the customer and his/her economic environment. The rating system is completed by a set of rules for recognising liabilities within corporations. The selectivity of this statistical model has been proven on the basis of a large external database of German companies with very good results.

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

The expected probability of default for each borrower can be derived from the rating categories. On this basis, we estimate the expected loss for the individual loan exposures taking security and other agreements into account. We set up net loan impairment and other credit risk provisions for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

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

The credit risk is monitored on a daily basis with the help of a risk limit system which monitors whether the approved credit lines are complied with.

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

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

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

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

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

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

### (b) Maximum default risk

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

The following table shows the Bank's theoretical maximum default risk as of the balance sheet date disregarding collateral received and other risk-reducing techniques. The maximum default risk can be quantified best by means of the gross book value of the financial assets including OTC derivatives. The netting provisions under IAS 32 as well as the impairments for financial invest-

ments under IAS 39 are taken into consideration in the gross book value. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum default risk corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The maximum default risk in respect of issued lending commitments, which cannot be revoked during their term or only in the event of a significant negative market change, is the full amount committed.

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
<b>Loans and advances</b>	<b>5,116.9</b>	<b>22.6</b>	<b>7,062.3</b>	<b>26.8</b>
to banks	2,429.4	10.7	2,979.7	11.3
to customers	2,687.5	11.9	4,082.6	15.5
<b>Trading assets</b>	<b>9,546.8</b>	<b>42.2</b>	<b>11,947.8</b>	<b>45.3</b>
Bonds and other fixed-income securities	4,839.7	21.4	6,945.4	26.3
Equities and other non-fixed-income securities	832.4	3.7	383.7	1.5
Tradable receivables	1,917.2	8.5	2,001.6	7.6
OTC derivatives	1,542.9	6.8	2,223.4	8.4
Reverse repos/securities lending	72.6	0.3	74.4	0.3
Cash deposits	346.6	1.5	319.3	1.2
<b>Financial assets</b>	<b>3,126.1</b>	<b>13.8</b>	<b>2,118.8</b>	<b>8.1</b>
Bonds and other fixed-income securities	2,567.4	11.3	1,720.1	6.6
Equities	29.8	0.1	21.4	0.1
Investment certificates	145.3	0.6	142.6	0.5
Promissory note loans	277.3	1.2	127.6	0.5
Interests in subsidiaries	106.3	0.5	107.1	0.4
<b>Contingent liabilities</b>	<b>1,569.2</b>	<b>6.9</b>	<b>1,747.5</b>	<b>6.6</b>
<b>Loan commitments</b>	<b>3,290.2</b>	<b>14.5</b>	<b>3,489.2</b>	<b>13.2</b>
<b>Total</b>	<b>22,653.8</b>	<b>100.0</b>	<b>26,365.6</b>	<b>100.0</b>

### **(c) Collateral and other risk-reducing techniques**

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

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

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a programme which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are excluded from this. A valuation or an account/securities account statement for these guarantees is obtained from the third-party bank on a regular basis, but at least once a year.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract. In contrast, assigned receivables and transfers of title to physical objects as security are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when valuing assignments the legal status of the pledge and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location

and the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is stipulated which is applied to the receivables portfolio and to the pledged tangible assets.

Land charges should be within a loan-to-value ratio of 50 % (mainly commercial use) or 60 % (mainly residual use) of the lastingly achievable market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

Government and private loan insurance and bank guarantees in particular are considered as collateral in the international business. They are valued at the amount guaranteed.

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

The collateral value is automatically taken into consideration in the risk statement in respect of valued collateral.

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

#### (d) Information on credit quality

##### Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7
Overdue, but not impaired	0.0	0.6	0.5	0.0	1.1
Individually impaired*	0.0	80.4	6.2	7.9	94.5
<b>Total</b>	<b>2,429.4</b>	<b>2,687.5</b>	<b>1,569.2</b>	<b>3,290.2</b>	<b>9,976.3</b>

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2
Overdue, but not impaired	0.0	1.9	0.7	0.2	2.8
Individually impaired*	0.0	60.2	7.7	0.1	68.0
<b>Total</b>	<b>2,979.7</b>	<b>4,082.6</b>	<b>1,747.5</b>	<b>3,489.2</b>	<b>12,299.0</b>

\* Including the setting-up of credit risk provisions

### Trading assets and financial assets (exclusively bonds)

The following overviews are based on the results of external rating agencies (as a rule Standard and Poor's). It is taken into consideration that external issue ratings are

only available on a regular basis for bonds and other fixed-interest securities. Should different rating agencies arrive at differing valuations of the same financial assets, the lower value is reported.

in €m	31.12.2009			31.12.2008		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	1,959.7	1,064.9	3,024.6	2,166.8	700.2	2,867.0
AA+ to AA-	1,823.8	910.6	2,734.4	3,897.1	682.3	4,579.4
A+ to A-	734.5	320.6	1,055.1	600.3	150.0	750.3
BBB+ to BBB-	41.8	146.6	188.4	18.3	103.0	121.3
Lower than BBB-	1.8	18.4	20.2	0.3	13.8	14.1
No rating	278.1	106.3	384.4	262.6	70.8	333.4
<b>Total</b>	<b>4,839.7</b>	<b>2,567.4</b>	<b>7,407.1</b>	<b>6,945.4</b>	<b>1,720.1</b>	<b>8,665.5</b>

### OTC derivatives

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

		31.12.2009		31.12.2008	
		in €m	in %	in €m	in %
OECD	Banks	1,130.0	73.5	1,623.0	73.0
	Financial institutions	228.4	14.8	224.9	10.1
	Other	179.1	11.6	374.2	16.8
Non-OECD	Banks	0.7	0.1	0.0	0.0
	Financial institutions	0.1	0.0	0.0	0.0
	Other	0.1	0.0	1.3	0.1
<b>Total</b>	<b>1,538.4</b>	<b>100.0</b>	<b>2,223.4</b>	<b>100.0</b>	

**(e) Information on exposures which are neither overdue nor impaired**

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk

(a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto 7 financial grades. Financial grades 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as of the balance sheet date was as follows:

in €m		31.12.2009			
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit ratings 1 – 2	2,134.9	932.3	715.6	1,331.1	5,113.9
Credit ratings 3 – 4	294.5	1,432.3	839.3	1,945.6	4,511.7
Rating category 5	0.0	241.9	7.6	5.6	255.1
<b>Total</b>	<b>2,429.4</b>	<b>2,606.5</b>	<b>1,562.5</b>	<b>3,282.3</b>	<b>9,880.7</b>

in €m		31.12.2008			
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit ratings 1 – 2	2,916.0	1,645.0	988.8	1,666.1	7,215.9
Credit ratings 3 – 4	55.0	2,291.3	737.0	1,822.8	4,906.1
Rating category 5	8.7	84.2	13.3	0.0	106.2
<b>Total</b>	<b>2,979.7</b>	<b>4,020.5</b>	<b>1,739.1</b>	<b>3,488.9</b>	<b>12,228.2</b>

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

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

The Bank's loans and advances which have not been impaired although overdue amounted to € 0.6 million in the year under report (2008: € 1.9 million) and are exclusively to customers. € 0.1 million (2008: € 0.5 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. We made no corresponding impairments on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.1 million in the year under report (2008: € 0.5 million).

There are also overdue, but not impaired claims resulting from excess interest of € 0.5 million (2008: € 0.4 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2008: € 0.5 million).

There were no further overdue, but not impaired loans and advances to customers in the year under report (2008: € 1.0 million).

**(g) Information on exposures for which net loan impairment and other credit risk provisions have been set up**

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experience assessment by the person responsible. The credit ratings 6 and 7 include problematic exposures for which net loan impairment and other credit risk provisions have been set up. Net loan impairment and other credit risk provisions set up to allow for country risks also include exposures with higher credit ratings. Net loan impairment and other credit risk provisions for country risks stood at € 3.0 million in the year under report (2008: € 3.1 million).

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

in €m	31.12.2009			31.12.2008		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
<b>Book value before individually assessed impairments</b>						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	5.2	5.2
Rating category 6	0.0	74.4	74.4	0.0	51.1	51.1
Rating category 7	0.0	6.0	6.0	0.0	3.9	3.9
<b>Total</b>	<b>0.0</b>	<b>80.4</b>	<b>80.4</b>	<b>0.0</b>	<b>60.2</b>	<b>60.2</b>
<b>Individually assessed impairments</b>						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	3.2	3.2
Rating category 6	0.0	25.2	25.2	0.0	9.6	9.6
Rating category 7	0.0	4.3	4.3	0.0	2.2	2.2
<b>Total</b>	<b>0.0</b>	<b>29.5</b>	<b>29.5</b>	<b>0.0</b>	<b>15.0</b>	<b>15.0</b>
<b>Book value after IAI*</b>	<b>0.0</b>	<b>50.9</b>	<b>50.9</b>	<b>0.0</b>	<b>45.2</b>	<b>45.2</b>

\* IAI Individually assessed impairments

Within the scope of net loan impairment and other credit risk provisions HSBC Trinkaus also makes credit risk provisions for individual contingent liabilities and loan commitments which amounted to € 3.2 million in the year under report (2008: € 5.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 13.4 million (2008: € 6.4 million) for loans and advances and € 3.6 million (2008: € 1.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 63.3 million (2008: € 43.7 million) as of the balance sheet date.

#### **(h) Information on collateral received**

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 26.9 million (2008: € 38.3 million) in the year under report.

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

Collateral received and other credit improvements amounting to € 26.7 million were realised and drawn on, respectively, in the 2009 financial year (2008: € 11.3 million).

#### (j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced by individual changes

in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region.

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
<b>Risk concentration by sector</b>				
Banks and financial institutions	9,439.0	41.7	12,584.9	47.7
Companies and self-employed professionals	8,068.7	35.6	9,191.2	34.9
Public sector	4,797.2	21.2	4,278.3	16.2
Employed private individuals	348.9	1.5	311.2	1.2
<b>Total</b>	<b>22,653.8</b>	<b>100.0</b>	<b>26,365.6</b>	<b>100.0</b>

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
<b>Risk concentration by region</b>				
Domestic	15,483.2	68.3	18,120.5	68.7
Other EU (including Norway and Switzerland)	5,885.8	26.0	6,814.3	25.9
North America	650.2	2.9	314.1	1.2
Asia	472.4	2.1	632.1	2.4
South America	70.5	0.3	430.8	1.6
Africa	39.9	0.2	18.9	0.1
Rest of Europe	33.8	0.1	31.4	0.1
Oceania	18.0	0.1	3.5	0.0
<b>Total</b>	<b>22,653.8</b>	<b>100.0</b>	<b>26,365.6</b>	<b>100.0</b>

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 2,674 million (2008: € 4,579.5 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland. As the political situation and law and order are stable in these regions, no increased default risks are to be feared.

### **(k) Counterparty risk monitoring as required by the supervisory authority**

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus. The Credit Risk Control department has evolved from this project group. As the counterparty risk monitoring unit required by the supervisory authority, this department is responsible for the maintenance, monitoring and further development of the credit risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

### **(l) Credit portfolio management**

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks on portfolio level. For this purpose the Bank is still using a simplified portfolio model at present which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. We work very closely with the HSBC Group here and plan to introduce the portfolio model used on the Group level in line with the market in the near future. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

### **(m) Stress tests**

Both the internal and the external risk-sensitive assessments of the credit portfolio are subjected to various stress test scenarios on a quarterly basis. The stress tests are conceived and the calculation and analysis of the results carried out by the Credit Risk Control department involving the Credit department and the Corporate Banking segment. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

## **Operational risk**

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks exist in any area of an organisation and embrace a broad spectrum. Legal risks are also regarded as operational risks.

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Controls Committee is the central body responsible for the control of operational risk as well as reputational risk across the board within the Bank. The Committee meets every two months and is chaired by the Executive Committee member responsible for Credit & Operational Risk. The Deputy Chairman of the Committee is the Management Board member responsible for Risk Controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus Group.

The Committee's task is to identify operational risk across the Group, to evaluate and monitor it and to take steps for its control and future avoidance. The business procedures and processes in all of the Bank's divisions and subsidiaries are analysed in collaboration with the respective divisional heads and managing directors as well as the decentralised coordinators for operational risk in order to identify potential operational risks. The Committee uses these and other measures to monitor the effectiveness of the internal control environment.

Identified operational risks are evaluated with respect to their possible loss potential; the probability of these risks occurring before any risk reduction measures have been introduced is also examined. The absolute extent of the risk is determined in this way. Controls already implemented are then taken into consideration and on this basis the risks are allocated to one of four risk categories. If the Committee identifies major operational risks

which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. For example, the Committee can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation, measures introduced as well as losses incurred are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

As the Group-wide coordinator, the secretary of the Operational Risks and Internal Controls Committee initiates and monitors the implementation of the Committee's decisions in the Bank including its subsidiaries. The methods, concepts and instruments of operational risk management are constantly refined and developed further in close collaboration with the HSBC Group.

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

A further significant instrument for identifying and observing operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus are involved. All operational problems that lead to significant loss of profit, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each incident, including each potential incident, is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides how this risk can be reduced if necessary. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

The Supervisory Board is informed once a year about the activities of the Operational Risks and Internal Controls Committee. This also includes a statement of overall losses including an explanation of particular occurrences.

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

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The work carried out by the Committee in recent years has significantly increased the awareness of operational risk among all employees. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk as well as reputational risks. In light of this, regular training is carried out in the various business areas of the Bank. In addition, every new employee has to take part in corresponding obligatory training on the topic of operational risk.

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

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

## Market risk

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

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the Consolidated Financial Statements „Financial Instruments“ for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in market parameters. With respect to interest rate risk we consider both general interest-rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from non-financials in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates
- Zero interest rates for typical maturities from swap, government bond and Pfandbrief yield curves
- Equity and equity index option volatilities for typical maturities
- Foreign exchange options volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

The inclusion of further spread risks in the risk model is in the conception phase; we are aiming for approval by the supervisory authorities in 2010. Issuer-specific interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits, including limits for sensitivities and special stress scenarios.

The total market risk of HSBC Trinkaus & Burkhardt AG according to our internal risk model and comparable figures for our Luxembourg subsidiary is as follows:

in €m	2009			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.8	2.1	3.6
Foreign exchange transactions	0.2	0.3	0.1	1.0
Equity and index transactions	4.6	3.3	0.8	6.2
<b>Total potential market risk in the trading portfolio</b>	<b>4.7</b>	<b>4.9</b>	<b>2.7</b>	<b>8.4</b>

in €m	2008			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.5	1.9	4.0
Foreign exchange transactions	0.0	0.2	0.0	0.5
Equity and index transactions	3.8	1.6	0.7	4.0
<b>Total potential market risk in the trading portfolio</b>	<b>4.4</b>	<b>3.1</b>	<b>2.0</b>	<b>5.0</b>

Risks relating to interest rates and equities still represent the Bank's greatest market risks. As a result of the financial market crisis, there were far greater moves in the market on individual days. This led to higher risk parameters and therefore to slightly higher values at risk.

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

For the purposes of assuring risk-assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. No back-testing anomalies were found throughout the Bank in 2009. After two anomalies in 2008, this suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets in the meantime.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into

the model. We counteract high levels of uncertainty in the valuation of positions in illiquid markets not only by using limits, but also by making adequate valuation adjustments.

Value-at-risk approaches are acknowledged as unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater to this, we supplement our full risk identification system with daily stress testing of all trading departments in order to assess the impact of extreme market movements on the value of positions. The stress testing results form part of the daily risk reporting process and provide us with valuable additional information. Separate limits are defined for the losses arising from the stress tests, and the scenarios we use are regularly checked and adjusted.

Compliance with all risk limits is monitored every day by Market Risk Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the

course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

The average market risk potential in the investment book (99 % confidence interval/ 1-day holding period) came to € 3.5 million (2008: € 1.2 million). Market risks in the Bank's investment book are limited to interest-rate as well as equity and other price risks. They are determined outside the risk models and are controlled at the executive management level.

## Liquidity risk

We understand liquidity risk as the danger of insolvency which arises if long-term assets are financed on a short-term basis and unexpected outflows of funds cannot be compensated.

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events.

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2009	2008
31.12.	1.79	1.57
Minimum	1.63	1.51
Maximum	2.08	1.83
Average	1.84	1.61
Reference value in accordance with Section 2 LiqV	1.00	1.00

The ratio of loans and advances to customers to customer deposits is a further central ratio for managing liquidity throughout the Bank. It stood at 29.7 % (2008: 35.2 %) at the end of the year. There was no material concentration of liquidity risks with respect to assets and financing sources or in respect of foreign currencies.

The extent and composition of the liquidity cushion consisting of liquid funds and liquid assets is of central importance with respect to liquidity management. The cushion is meant to secure the Bank's financial solvency even given unexpected outflows of funds. The minimum amount of the cushion is derived from a stress scenario which shows a major outflow of customer deposits, the immediate drawing on part of uncalled loan commitments, a decline in value of the debt securities held as collateral on account of market conditions and a strong increase in the collateral requirements of central coun-

terparties. The scenario is meant to simulate the effect of a rating downgrade of up to three rating notches. The most important component of the liquidity cushion is the opportunity of refinancing at the central bank in order to cover unexpected liquidity requirements arising in the short term. As of 31 December we had deposited unused collateral with a collateral value of € 4.85 billion at the Bundesbank giving us potential access to central bank loans to this extent. However, we participated in main refinancing operations only once in 2009 in order to demonstrate the access to this source of refinancing, which we did not use otherwise.

In addition to the scenario relevant for calculating the liquidity cushion, we evaluate further scenarios within the scope of our monthly stress tests which differ in terms of the varying assumptions with respect to institution-specific or market-wide results. In each scenario we forecast the cumulative change in the accumulated liquid

funds per maturity band. Alongside the maturity bands of one to seven days and seven days to one month, four further maturity bands up to one year are examined in which the balance of the cumulative inflows and outflows must remain positive in each case. Parallel to these stress tests, we draw up quarterly liquidity commitment reports and liquidity outflow analyses.

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock exchange transactions which are settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements. As of 31 December 2009 the Bank had received € 74.4 million and provided € 346.6 million in cash collateral under such collateral riders.

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk position. ALCO's duties include monitoring liquidity ratios, the liquidity cushion and liquidity stress tests as well as the regular adjustment of the emergency liquidity plan. ALCO is also responsible for transfer pricing for liquidity allocation within the Bank. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. Our three-stage emergency liquidity plan can be activated at short notice and ensures that the Bank can fulfil its payment obligations at any time, even without HSBC's support. At the same time, we are not permanently reliant on central bank liquidity to finance our business model. We want to fund our lending business entirely out of customer deposits or funds raised via bonds, certificates or promissory note loans, which is expressed not least in the parameters given above. Moreover, the constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit either.

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

We see liquidity risk as a consequential risk of a lack of confidence in providers of outside capital which is frequently prompted by expected losses in connection with credit, market or operational risks. As the latter risks are already to be backed with capital, we believe providing liquidity risk with its own capital backing makes no sense if the capital cushion is adequately endowed for other risks.

In order to show the Bank's liquidity risk, an overview of the residual terms of the financial liabilities is given in the table below. The cash flows agreed by contract are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value shown in the Balance Sheet insofar as discounted values are taken into consideration in the Balance Sheet.

in €m		31.12.2009					
	Book value	Gross outflow (not discounted)					
	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	
<b>Financial liabilities within the balance sheet:</b>							
Deposits by banks	2,697.6	2,699.7	2,641.0	9.7	30.9	13.7	4.4
Customer accounts	9,062.1	9,093.8	7,900.3	597.7	315.6	99.9	180.3
Certificated liabilities	10.0	13.1	0.4	0.0	0.0	1.2	11.5
Trading liabilities (excluding derivatives*)	2,740.6	3,111.2	183.4	183.5	498.0	1,297.1	949.2
Derivatives in hedging relationships	3.2	3.7	-0.3	-0.1	1.9	1.3	0.9
Provisions**	152.2	162.6	140.4	0.0	0.0	0.0	22.2
Other liabilities	95.3	97.3	23.1	34.2	21.0	10.9	8.1
Subordinated capital	384.4	650.4	0.0	0.0	6.2	39.2	605.0
<b>Sub-total</b>	<b>15,145.4</b>	<b>15,831.8</b>	<b>10,888.3</b>	<b>825.0</b>	<b>873.6</b>	<b>1,463.3</b>	<b>1,781.6</b>
<b>Financial liabilities outside the balance sheet:</b>							
Financial guarantees	351.6	351.6	351.6	0.0	0.0	0.0	0.0
Loan commitments	3,290.2	3,290.2	3,290.2	0.0	0.0	0.0	0.0
<b>Total</b>	<b>18,787.2</b>	<b>19,473.6</b>	<b>14,530.1</b>	<b>825.0</b>	<b>873.6</b>	<b>1,463.3</b>	<b>1,781.6</b>

in €m		31.12.2008					
	Book value	Gross outflow (not discounted)					
	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	
<b>Financial liabilities within the balance sheet:</b>							
Deposits by banks	2,709.1	2,737.1	2,469.8	16.0	63.7	182.0	5.6
Customer accounts	11,592.8	11,745.7	9,841.7	785.7	582.7	223.3	312.3
Certificated liabilities	10.0	13.5	0.4	0.0	0.0	1.2	11.9
Trading liabilities	6,152.9	6,948.1	2,244.4	273.0	1,223.7	817.2	2,389.8
of which derivatives	3,192.9	3,662.8	286.5	267.9	1,169.9	661.1	1,277.4
Provisions**	117.4	127.2	106.5	0.0	0.0	0.0	20.7
Other liabilities	108.2	116.1	26.2	50.4	12.1	14.1	13.3
Subordinated capital	458.7	732.4	5.0	3.0	68.8	37.2	618.4
<b>Sub-total</b>	<b>21,149.1</b>	<b>22,420.1</b>	<b>14,694.0</b>	<b>1,128.1</b>	<b>1,951.0</b>	<b>1,275.0</b>	<b>3,372.0</b>
<b>Financial liabilities outside the balance sheet:</b>							
Loan commitments	3,489.2	3,489.2	3,489.2	0.0	0.0	0.0	0.0
<b>Total</b>	<b>24,638.3</b>	<b>25,909.3</b>	<b>18,183.2</b>	<b>1,128.1</b>	<b>1,951.0</b>	<b>1,275.0</b>	<b>3,372.0</b>

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

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

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance-sheet date. It is to be taken into consideration, though, that liabilities do not

necessarily have to be repaid at the earliest possible point in time and that uncalled loan commitments are not drawn on in full.

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

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, the book values of the main assets and liabilities by residual term which will lead to future cash outflows or inflows are set against each other in the table below:

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
Loans and advances to customers	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
Trading assets* / **	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
Financial assets	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
Other assets	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
<b>Total</b>	31.12.2009	<b>13,763.9</b>	<b>786.1</b>	<b>634.6</b>	<b>1,948.6</b>	<b>834.0</b>	<b>471.7</b>	<b>18,438.9</b>
	31.12.2008	<b>17,434.0</b>	<b>1,126.6</b>	<b>745.0</b>	<b>1,098.9</b>	<b>1,045.0</b>	<b>473.4</b>	<b>21,922.9</b>

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
	31.12.2008	2,468.9	15.9	62.0	158.2	4.1	0.0	2,709.1
Customer accounts	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
	31.12.2008	9,833.5	778.0	565.7	192.5	223.1	0.0	11,592.8
Certificated liabilities	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2008	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities* / **	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
	31.12.2008	6,152.9	0.0	0.0	0.0	0.0	0.0	6,152.9
Provisions***	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
	31.12.2008	106.3	0.0	0.0	0.0	11.1	0.0	117.4
Other liabilities	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
	31.12.2008	26.1	49.9	11.7	12.2	8.3	0.0	108.2
Subordinated capital	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
	31.12.2008	5.0	3.0	66.3	31.0	353.4	0.0	458.7
<b>Total</b>	31.12.2009	<b>15,895.0</b>	<b>639.6</b>	<b>370.2</b>	<b>151.4</b>	<b>538.9</b>	<b>0.0</b>	<b>17,595.1</b>
	31.12.2008	<b>18,592.7</b>	<b>846.8</b>	<b>705.7</b>	<b>393.9</b>	<b>610.0</b>	<b>0.0</b>	<b>21,149.1</b>

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

\*\* excluding derivatives which are part of a hedging relationship

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

# The ICS in the accounting process

## General

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

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

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

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

The Internal Control System at the company level is documented comprehensively and examined and updated annually within the scope of the requirements under the US Sarbanes Oxley Act (SOX), which is indirectly applicable to us as well through the listing of the

HSBC shares in New York. HSBC Trinkaus follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code. Pursuant to section 161 German Stock Corporation Act (AktG) the Management Board and Supervisory Board declare on an annual basis that the recommendations of the "Government Commission on the German Corporate Governance Code" were and are complied with and which recommendations were or are not applied and for what reason. This declaration is part of the corporate government statement pursuant to section 289 a German Commercial Code (HGB) which is published on our homepage ([www.hsbctrinkaus.de](http://www.hsbctrinkaus.de)).

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

## Organisational structure

The organisational structure of the Bank including the Support Functions and the responsibilities within the Management Board are presented in the chapter entitled "The Business Divisions". Accounting at the Bank is primarily the responsibility of the Support Functions Accounting and Controlling.

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of

the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt was Chairman of the Audit Committee until 31 December 2009. Further members at this point in time were Harald Hörauf, Eggstätt, and Mark McCombe, Hong Kong.

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

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

## IT systems

The financial statements of HSBC Trinkaus & Burkhardt AG according to HGB as well as the MIS are based substantially on integrated accounting. This involves a self-developed mainframe programme package which essentially provides data and interim results for the daily, monthly and annual financial statements including the income statement as well as for cost centre accounting

and customer costing. Integrated accounting guarantees that there is a close connection between accounting and MIS. Accounting according to IFRS for HSBC Trinkaus & Burkhardt AG is also featured in integrated accounting via separate company codes.

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

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

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

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

## General structure of the ICS

The main principles for the structure of the ICS with regard to the accounting process are:

### **(a) Functional separation**

Customer contact and business transactions are clearly separated from all downstream processes in operational terms up to Management Board level. In addition to the internal audit department, the settlement control department is of particular importance with regard to the accounting process. Settlement control is responsible among other things for the reconciliation of all loro and nostro accounts as well as reconciling all trade confirmations received with the trade confirmations of the various back-office areas. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

### **(b) Principal of dual control and authority rules**

Each entry must be verified by a second person. The permissions for this are geared towards the experience and expertise of the individual employees and regularly updated in the IT systems. They are examined by the respective divisional heads on a regular basis.

### **(c) Professional skills of the employees**

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

### **(d) Access authorisations**

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

## Specific components of the ICS

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

### (a) Accounting guidelines

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

### (b) Plausibility checks for all registers

During the processing of a register, various plausibility checks are carried out by the system. The plausibility checks lead either to the entry being rejected or to entries with default settings or to an error log which is processed by settlement control the next day.

### (c) Reconciliation of the back-office systems

All derivatives and money market transactions are reconciled between the front and back-office systems by a separate coordination group on a daily basis. Any differences are clarified the next day.

### (d) Depositary reconciliation

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

### (e) Internal accounts and securities accounts

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

### (f) Reconciliation with affiliated companies

All transactions within the HSBC Trinkaus Group are consolidated on a monthly basis. Any differences arising are recorded and clarified. Transactions with other companies from the HSBC group are presented separately in the monthly report to HSBC and automatically consolidated by HSBC. Any substantial differences arising are reported to both companies concerned on a quarterly basis and are to be promptly clarified.

### (g) Account statements and confirmations of open transactions

Settlement control sends out annual account statements for all customer accounts. For open transactions, in particular OTC derivatives (including foreign exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

### (h) Reconciliation between Accounting and Controlling

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

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

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

### (i) Reconciliation between Market Risk Control and Accounting

Market Risk Control determines the trading result per trading desk on a daily basis. The results are reconciled in Accounting each month with the revenues of the trad-

ing departments in accordance with profit contribution accounting. All differences are analysed down to instrument level, the main differences being promptly discovered and corrected.

#### **(j) Analysis of special business transactions**

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

#### **(k) Plausibility checks**

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

#### **(l) Overall reconciliation of the income statement**

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

#### **(m) Discussion of the monthly results by the Management Board**

Immediately after completion of the monthly income statement the results are sent to the Management Board member responsible for accounting. He forwards the key data of the monthly statement together with his comments to the other Management Board members for discussion in the next Management Board meeting. Discussion by the Management Board guarantees the initial monthly plausibility check of the group figures by the overall Management Board. In addition, all Management Board members receive a detailed monthly report drawn up and commented on by Controlling, which includes the trend in revenues and costs for both the Group as a whole and the main subsidiaries. The revenues and costs are also shown by product and busi-

ness segment. An additional quarterly report is drawn up by Controlling in the quarterly results, which makes the revenues and costs of all subsidiaries broken down into private and corporate banking business as well as the revenues and costs of all product specialists in the individual client groups transparent for all Management Board members.

## Staff

### Number of employees and persons receiving pensions

We had a total of 2,280 employees at the end of 2009, compared to 2,238 at the end of the previous year. This represents an increase of 1.9%. At the end of 2009 we were paying retirement, widow's and orphan's pensions to 556 recipients, compared to 544 at the end of 2008.

### Training activities

A total of 35 highly motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT.

In addition, six are working towards investment fund specialist qualifications at our HSBC INKA subsidiary and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH (formerly ITS).

We are proud to report this year as well that a total of 20 apprentices at the HSBC Trinkaus Group successfully completed their training in 2009. One apprentice passed his final exams with the grade of "very good". We remain strongly committed to the qualified training of our employees.

### Advanced training

We strive to constantly offer our clients major expertise and high quality with respect to our advisory service. The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore continue to make extremely high demands of our job applicants, also in view of future demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging expectations in the long term. We therefore pay particular attention to the further training of our employees, which is developed on a needs-oriented and targeted basis. For example, we help them to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. Our various advanced training activities

are rounded off by specialised Bachelor and Master occupational study and training courses, such as Chartered Financial Analyst (CFA) or Certified Financial Planner (CFP), as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). The selection of vocational training measures is subject to regular quality control and the recruitment of suitable trainers is geared towards the special requirements made of our employees in the various areas of our business.

### Performance-related remuneration

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

### Thanks

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

# Shareholders and Shares

## Capital

At 31 December 2009 the Bank's issued share capital was unchanged at € 70.0 million divided into 26.1 million no-par value shares. 52 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

As of the balance sheet date, HSBC Holdings plc, London, indirectly held an unchanged share of 78.6 % of this share capital and Landesbank Baden-Württemberg in Stuttgart directly held an unchanged share of 20.3 %.

## Share price and market value

During 2009 our share price rose 10.1 % to € 98.00. The lowest fixing price of the year was € 77.00 and the highest € 100.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.60	317.50
31.12.1990	22,000,000	19.80	435.30
31.12.1995	23,500,000	30.60	718.50
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.80
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80

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

## Dividends

For the 2009 financial year we propose paying a dividend of € 2.50 per share (2008: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that

our shareholders participate suitably in the profits we generated in 2009.

# Consolidated Financial Statements

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# Consolidated Balance Sheet

## HSBC Trinkaus & Burkhardt

Assets in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Cash reserve	(20)	177.0	139.5	37.5	26.9
Loans and advances to banks	(5, 21)	2,429.4	2,979.7	-550.3	-18.5
Loans and advances to customers	(5, 22)	2,687.5	4,082.6	-1,395.1	-34.2
Net loan impairment provision	(7, 23)	-42.9	-21.4	-21.5	> 100.0
Trading assets	(5, 24)	10,005.7	12,482.6	-2,476.9	-19.8
Financial assets	(5, 27)	3,126.1	2,118.8	1,007.3	47.5
Interests in associates	(26)	10.6	10.1	0.5	5.0
Property, plant and equipment	(10, 27)	83.3	81.1	2.2	2.7
Intangible assets	(11, 27)	44.1	56.0	-11.9	-21.3
Taxation recoverable	(15, 28)	13.0	17.5	-4.5	-25.7
current		13.0	13.0	0.0	0.0
deferred		0.0	4.5	-4.5	-100.0
Other assets	(29)	194.8	259.2	-64.4	-24.8
<b>Total assets</b>		<b>18,728.6</b>	<b>22,205.7</b>	<b>-3,477.1</b>	<b>-15.7</b>

Liabilities in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Deposits by banks	(5, 32)	2,697.6	2,709.1	-11.5	-0.4
Customer accounts	(5, 33)	9,062.1	11,592.8	-2,530.7	-21.8
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	5,196.7	6,152.9	-956.2	-15.5
Provisions	(14, 36)	152.2	117.4	34.8	29.6
Taxation	(15, 37)	67.7	85.1	-17.4	-20.4
current		61.1	81.5	-20.4	-25.0
deferred		6.6	3.6	3.0	83.3
Other liabilities	(38)	95.3	108.2	-12.9	-11.9
Subordinated capital	(39)	384.4	458.7	-74.3	-16.2
Shareholders' equity	(40)	1,062.5	955.0	107.5	11.3
Share capital		70.0	70.0	0.0	0.0
Capital reserve		216.9	218.5	-1.6	-0.7
Retained earnings		654.7	566.8	87.9	15.5
Consolidated profit available for distribution		120.9	99.7	21.2	21.3
Minority interests	(41)	0.1	16.5	-16.4	-99.4
<b>Total equity and liabilities</b>		<b>18,728.6</b>	<b>22,205.7</b>	<b>-3,477.1</b>	<b>-15.7</b>

# Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

## Consolidated Income Statement

Income statement in €m	(Note)	2009	2008	Change	
				in €m	in %
Interest income		235.1	397.6	-162.5	-40.9
Interest expense		91.8	258.1	-166.3	-64.4
Net interest income	(42)	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	(7, 44)	22.4	4.5	17.9	>100.0
Share of profit in associates	(43)	0.6	0.5	0.1	20.0
Fee income		575.1	606.5	-31.4	-5.2
Fee expenses		228.9	258.9	-30.0	-11.6
Net fee income	(45)	346.2	347.6	-1.4	-0.4
Net trading income	(46)	123.0	87.1	35.9	41.2
Administrative expenses	(47)	400.8	384.2	16.6	4.3
Income from financial assets	(48)	-24.0	-50.0	26.0	52.0
Net other income/expenses	(49)	-2.2	2.2	-4.4	>100.0
<b>Profit before taxes</b>		<b>163.7</b>	<b>138.2</b>	<b>25.5</b>	<b>18.5</b>
Tax expenses	(50)	54.5	48.6	5.9	12.1
<b>Net profit for the year</b>		<b>109.2</b>	<b>89.6</b>	<b>19.6</b>	<b>21.9</b>
Group profit/loss attributable to minority interests		1.6	-1.6	3.2	>100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		107.6	91.2	16.1	18.0

## Reconciliation from Net Income to Comprehensive Income

in €m	2009	2008
Net profit for the year	109.2	89.6
Gains/losses not recognised in the income statement	62.1	-41.2
of which from financial instruments	61.1	-28.7
of which from actuarial results	1.1	-12.5
of which from currency conversion	-0.1	0.0
<b>(Total) comprehensive income</b>	<b>171.3</b>	<b>48.4</b>
Attributable to:		
Minority interests	1.6	-1.6
HSBC shareholders	169.7	50.0

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

## Earnings per share

	2009	2008
Net income after tax in €m	109.2	89.6
Minority interests in €m	1.6	-1.6
Net profit after tax and minority interests in €m	107.6	91.2
Average number of shares in circulation in million	26.1	26.1
Earnings per share in €	4.12	3.49
Undiluted earnings per share in €	4.12	3.49

As in 2008, there were no option and conversion rights outstanding for the purchase of shares in the 2009 financial year. There was therefore no calculable dilution effect.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 18) had a material impact on earnings per share. The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2008: € 2.50 per share).

## Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
<b>At 31 December 2007</b>	<b>70.0</b>	<b>216.9</b>	<b>486.7</b>	<b>195.1</b>	<b>968.7</b>	<b>0.0</b>	<b>968.7</b>
Dividend distribution				-65.3	-65.3		-65.3
Retention from 2007 profit available for distribution			121.3	-121.3	0.0		0.0
Addition from net profit for the year				91.2	91.2	-1.6	89.6
Changes in the group of consolidated companies						18.1	18.1
Share-based payments		1.6			1.6		1.6
Other changes			-41.2		-41.2		-41.2
<b>At 31 December 2008</b>	<b>70.0</b>	<b>218.5</b>	<b>566.8</b>	<b>99.7</b>	<b>955.0</b>	<b>16.5</b>	<b>971.5</b>
Dividend distribution				-65.3	-65.3		-65.3
Retention from 2008 profit available for distribution			20.9	-20.9	0.0		0.0
Addition from net profit for the year				107.6	107.6	1.6	109.2
Changes in the group of consolidated companies				-0.2	-0.2	-18.0	-18.2
Share-based payments		-1.6	4.9		3.3		3.3
Other changes			62.1		62.1		62.1
<b>At 31 December 2009</b>	<b>70.0</b>	<b>216.9</b>	<b>654.7</b>	<b>120.9</b>	<b>1,062.5</b>	<b>0.1</b>	<b>1,062.6</b>

# Consolidated Cash Flow Statement

## HSBC Trinkaus & Burkhardt

in €m	2009	2008
Net profit for the year	109.2	89.6
Non-cash items in net profit, and adjustments to reconcile net profit with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	88.1	-10.8
Net profit from the sale of investments and property, plant and equipment	0.6	0.3
Other adjustments (net)	-96.2	-48.8
Sub-total	101.7	30.3
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	550.3	1,137.3
Loans and advances to customers	1,394.4	193.0
Securities held for trading	1,520.7	-2,381.2
Other assets	-900.8	-691.3
Liabilities	-2,563.0	1,486.5
Other liabilities	-21.8	-1.8
Total adjustments	-20.2	-257.5
Interest receipts	232.9	396.9
Dividend receipts	2.2	0.6
Interest payments	-91.8	-258.2
Income taxes paid	-32.7	-20.3
<b>Cash flow from operating activities</b>	<b>192.1</b>	<b>-108.2</b>
Proceeds from the sale of		
Financial assets	0.0	3.3
Property, plant and equipment	4.5	1.0
Payments for the acquisition of		
Financial assets	-0.9	-0.8
Property, plant and equipment	-18.6	-22.8
<b>Cash flow from investing activities</b>	<b>-15.0</b>	<b>-19.3</b>
Dividends paid to HSBC Trinkaus shareholders	-65.3	-65.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	-74.3	0.0
<b>Cash flow from financing activities</b>	<b>-139.6</b>	<b>-65.3</b>

<b>Cash and cash equivalents at beginning of period</b>	<b>139.5</b>	<b>332.3</b>
Cash flow from operating activities	192.1	-108.2
Cash flow from investing activities	-15.0	-19.3
Cash flow from financing activities	-139.6	-65.3
<b>Cash and cash equivalents at end of period</b>	<b>177.0</b>	<b>139.5</b>



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# Notes to the Consolidated Financial Statements

## Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2009 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

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

To enhance transparency, all figures have been reported in millions of euros.

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

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

At the end of 2009, HSBC Holdings plc had an indirect interest of 78.6 % in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

## Information on Accounting, Valuation and Consolidation Methods

### 1 ▶ Scope of Consolidation

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

HSBC Global Asset Management (Switzerland) AG, which is headquartered in Zurich, was established in the financial year under review as a joint venture with HSBC Global Asset Management (Switzerland) AG, and recognised as equity on the balance sheet for the first time.

Grundstücksgesellschaft Kö 2 GmbH, Düsseldorf, and HSBC Trinkaus Bond Portfolio GmbH, Frankfurt am Main, were merged with HSBC Trinkaus Real Estate GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf, respectively, and are therefore no longer included within the scope of consolidation.

In addition, we have fully consolidated two special funds and one closed-end property fund (2008: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 63.

### 2 ▶ Consolidation Principles

In accordance with IAS 27 and 28, the accounting policies were applied consistently throughout the Group.

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

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

### 3 ▶ Foreign Currency Translation

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

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

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

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

Translation recognised in the income statement had no significant impact on the 2009 financial year, as in the previous year. Translation differences without effect on the income statement amounted to –€ 0.2 million (2008: € 0.0 million) and relate to a closed-end property fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63).

### 4 ▶ Business Combinations

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

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

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

## 5 ▶ Financial Instruments

### Recognition

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

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If all opportunities and risks are not transferred,

recognition is at the amount of the residual risk position, if we continue to exercise control over the financial instrument (continuing investment).

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

### Reporting

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

Measurement class (IFRS 7)	Balance sheet item	Measurement category (IAS 39)
Measurement at amortised cost	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
Measurement at fair value	Certificated liabilities	Other liabilities
	Financial assets	Available for sale
	Trading assets/liabilities	Held for trading
Derivatives in hedging relationships	Trading assets/liabilities	
Off-balance-sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

IFRS 7 redefines the disclosure of financial instruments and groups the reporting rules together in one standard. Furthermore the standard contains disclosure require-

ments of risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

### Measurement

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

#### (a) Financial Assets or Liabilities at Fair Value through Profit or Loss

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

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

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

#### **(b) Held-to-Maturity Investments**

As in the previous year, no financial instruments were allocated to the held-to-maturity category.

#### **(c) Loans and Receivables**

The “loans and receivables” category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here, which, owing to the short-term intention of the category to resell the assets, are allocated to the held-for-trading category. The corresponding loans and receivables are measured at amortised cost.

Discounts and premiums are recognised proportionately within interest income. Impairments on loans and receivables are reported under net loan impairment provision.

#### **(d) Financial Assets Available for Sale**

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

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

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

In the event of a reduction in value due to counterparty or sovereign risk (impairments), (direct) write-downs to the lower market value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in income from financial assets. Objective evidence of impairment on a debt instrument is included as income immediately. Write-ups affecting the income statement up to maximum amortised cost are recognised as soon as the reason for the write-down no longer applies. Equity instruments are written down if the market value is significantly or permanently below original cost. A decline in the fair value of at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below original costs in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the market value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike

debt instruments – no write-up with effect on the income statement is made. Rather, the corresponding write-ups are recognised directly in retained earnings.

#### **(e) Other Liabilities**

The other liabilities category includes all financial liabilities not allocated to the fair value category. They are therefore not measured at fair value through profit and loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Non-interest-bearing liabilities, such as zero coupon bonds, are measured at their interest rate as at the balance sheet date.

#### **(f) Reclassification**

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

## **6 ▶ Hedge Accounting**

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applied the provisions for the reporting of hedge relationships in accordance with IAS 29 (hedge accounting) for the first time in the year under report. The market value of the fixed-income bonds (hedged item) depends on changes in the market interest rate (e.g. five-year rate) on the one hand and on liquidity and risk premiums for the issuer (so-called spreads) on the other. HSBC Trinkaus hedges against market interest rate-induced volatility (designated portion of the hedged item) by concluding interest rate swaps with other banks (hedging instrument), which largely compensates for the fluctuations in the market value of the bonds. This hedging of market value fluctuations (so-called fair value hedges), the interest rate-induced volatility plus the interest rate swaps of the fixed-income bonds are recognized in the income statement in accordance with IAS 39. The spread-related market value fluctuations of the bonds are not hedged (unhedged portion of the hedged item). These are transferred to retained earnings in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

The reporting of hedging relationships in the balance sheet in accordance with IFRS is linked to a series of requirements that are largely related to documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must

be documented at the time of entering into a hedging relationship (inception of a hedge): the identification of the hedge and the underlying transaction, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

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

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. Proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness) on the other. Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between  $-0.9$  and  $-1.1$ . An R-square of greater than 0.8 and a slope of between  $-0.8$  and  $0.12$  is adequate for the retrospective effectiveness test.

## **7 ▶ Net Loan Impairment and Other Credit Risk Provisions**

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

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 rating categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on

counterparty risk in the consolidated financial statements for further explanations – especially on calculating impairments/provisions.

Furthermore, impairments/provisions are created on a portfolio basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated on the basis of the respective default probabilities and economic indicators.

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

## 8 ▶ Repurchase Agreements and Securities Lending Transactions

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

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

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

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

## 9 ▶ Share of Profit in Associates

On the one hand, we reported the associated company SINO AG, Düsseldorf, under the share of profit in associates. Owing to SINO AG's different financial year, the figures published for the previous quarter are used in the accounting process. On the other hand, HSBC Global Asset Management (Switzerland) AG, which was established as a joint venture with HSBC Global Asset Management (France), Paris, is taken into consideration here.

## 10 ▶ Property, Plant and Equipment

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

Hardware and other operational and business equipment are valued at cost less regular depreciation. The useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

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

Depreciation that exceeds wear-and-tear-related erosion is taken into consideration under impairments. Where the reasons cease, corresponding write-ups are made.

## 11 ▶ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the

asset of three to ten years. In addition to regular depreciation, impairment tests are also carried out to value fixed assets (cf. Note 10).

Intangible assets also include the goodwill resulting from the acquisition of the former ITS (referred to today as HSBC Transaction Services). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36. The enterprise value is calculated using a discounted cash flow method, where future cash flows are estimated and discounted by a market interest rate.

## 12 ▶ Leasing

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

## 13 ▶ Treasury Bonds and Shares

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

As at the end of 2009, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 78,458 treasury shares were bought at an average price of € 87.37 (2008: € 100.97) and sold at an average price of € 87.47 (2008: € 100.81). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.28 % (2008: 0.01 %) of the subscribed capital.

## 14 ▶ Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

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

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

## 15 ▶ Taxation Recoverable and Taxation

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

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable or deferred taxation will be adjusted accordingly (cf. Note 51).

## 16 ▶ Share-based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called acceleration of vesting). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value.

If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous

service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

In addition, the performance-related remuneration components for employees and the Management Board are, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in different tranches within or at the end of the vesting period, and is generally subject to continued service for the Bank. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period.

## 17 ▶ Reporting of Income and Expenses

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

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

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

The results from derivatives held in the banking book are also reported in net trading income.

## 18 ▶ IFRS Treatment Applied

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting and was already applied in 2008 ahead of schedule.

In September 2007, the International Accounting Standards Board (IASB) published amendments to IAS 1, Presentation of Financial Statements, which are also obligatory for financial years starting on or after 1 January 2009. These changes lead to adjustments to the statement of changes in equity, which should now show income and expenditure without effect on the income statement, that do not arise from transactions with or between shareholders, as a summary item (other changes). On the other hand, these „other changes“ should now be outlined in detail in the Consolidated Statement of Comprehensive Income. The necessary changes were carried out in the year under report and the corresponding comparable figures were adjusted accordingly.

The IASB also published changes to IFRS 7, Financial Instruments: Disclosures in March 2009.

These must be applied for financial years beginning on or after 1 January 2009. They lead to extended notes on the financial instruments recognised at fair value as well as on liquidity risk. The additional reporting rules were already complied with voluntarily in part in the previous year. All other necessary changes were applied in the year under report.

The other standards or interpretations which were applied for the first time in 2009 had no material impact.

On 12 November 2009, the IASB published Standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace Standard IAS 39 applicable to date. IFRS 9 sets out the new requirements for the classification and measurement of financial assets and will have a substantial influence on HSBC Trinkaus' accounting. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for

2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

Other standards and interpretations not yet compulsory for 2009 will not have any material effect on the Bank.

## 19 ▶ Material Events occurring after the Balance Sheet Date

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

# ▶ Notes to the Consolidated Balance Sheet

## 20 ▶ Cash Reserve

in €m	31.12.2009	31.12.2008
Cash and cash equivalents	3.6	2.8
Balances with the central bank	173.4	136.7
<b>Total</b>	<b>177.0</b>	<b>139.5</b>

Balances held with central banks are held mainly with the Deutsche Bundesbank and continue to be almost exclusively in euros.

The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

## 21 ▶ Loans and Advances to Banks

in €m	31.12.2009	31.12.2008
Current accounts	361.2	865.6
Money market transactions	1,923.8	2,049.6
of which overnight money	109.8	0.0
of which term deposits	1,814.0	2,049.6
Other loans and advances	144.4	64.5
<b>Total</b>	<b>2,429.4</b>	<b>2,979.7</b>
of which to domestic banks	1,442.0	1,768.0
of which to foreign banks	987.4	1,211.7

Loans and advances to banks also include our deposits within the HSBC Group. The reduction in the volume held on the current accounts is attributable to the reporting date.

## 22 ▶ Loans and Advances to Customers

in €m	31.12.2009	31.12.2008
Current accounts	980.9	1,481.2
Money market transactions	620.9	1,023.3
of which overnight money	79.3	190.8
of which term deposits	541.6	832.5
Loan accounts	1,063.4	1,573.5
Other loans and advances	22.3	4.6
<b>Total</b>	<b>2,687.5</b>	<b>4,082.6</b>
of which domestic customers	1,933.0	2,902.4
of which foreign customers	754.5	1,180.2

Based on an unchanged credit risk strategy, loans and advances to customers declined as our customers remain prudent in respect of borrowing in the current economic phase. This also impacts on receivables from syndicated loans. For this reason, some loans were repaid

in full and the utilisation of some current credit lines was reduced. The decline in the volume held on the current accounts is largely attributable to the reporting date.

## 23 ▶ Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2009	31.12.2008
Net loan impairment provision	42.9	21.4
Provisions for credit risks	6.8	6.8
<b>Net loan impairment and other credit risk provisions</b>	<b>49.7</b>	<b>28.2</b>

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. The in-

crease is largely a result of the increase in individually assessed and collectively assessed impairments.

Net loan impairment provision developed as follows:

in €m	Impairments				Total	
	Individually assessed		Collectively assessed		2009	2008
	2009	2008	2009	2008		
<b>As at 1.1.</b>	<b>15.0</b>	<b>12.5</b>	<b>6.4</b>	<b>3.7</b>	<b>21.4</b>	<b>16.2</b>
Reversals	3.5	1.0	0.0	0.0	3.5	1.0
Utilisation	0.9	0.2	0.0	0.0	0.9	0.2
Additions	18.9	3.6	7.0	3.4	25.9	7.0
Currency translation effects/ transfers	0.0	0.1	0.0	-0.7	0.0	-0.6
<b>As at 31.12.</b>	<b>29.5</b>	<b>15.0</b>	<b>13.4</b>	<b>6.4</b>	<b>42.9</b>	<b>21.4</b>

Provisions for credit risks developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2009	2008	2009	2008	2009	2008
<b>As at 1.1.</b>	<b>5.2</b>	<b>6.6</b>	<b>1.6</b>	<b>0.9</b>	<b>6.8</b>	<b>7.5</b>
Reversals	2.0	1.4	0.0	0.0	2.0	1.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	2.0	0.0	2.0	0.0
Currency translation effects/ transfers	0.0	0.0	0.0	0.7	0.0	0.7
<b>As at 31.12.</b>	<b>3.2</b>	<b>5.2</b>	<b>3.6</b>	<b>1.6</b>	<b>6.8</b>	<b>6.8</b>

## 24 ▶ Trading Assets

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	4,839.7	6,945.4
of which:		
public-sector issuers	2,294.5	2,350.4
other issuers	2,545.2	4,595.0
of which:		
listed	4,404.4	4,519.4
unlisted	435.3	2,426.0
Equities and other non-fixed-income securities	832.4	383.7
of which:		
listed	832.3	383.4
unlisted	0.1	0.3
Tradable receivables	1,917.2	2,001.6
Positive market value of derivatives	1,992.6	2,758.2
of which:		
OTC derivatives	1,538.3	2,223.4
exchange-traded derivatives	454.3	534.8
Reverse repos	72.3	72.3
Securities lending	0.3	2.1
Security in the derivatives business	346.6	319.3
Derivatives held in the banking book	4.4	0.0
Derivatives in hedging relationships	0.2	0.0
<b>Total</b>	<b>10,005.7</b>	<b>12,482.6</b>

The change is due primarily to the reduction in debt instruments of other banks of the HSBC Group. Debt instruments from public-sector issuers in the form of bonds and tradable receivables are largely unchanged. Tradable receivables are recognised mainly as promissory note loans and registered bonds. The decline in the

positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 35).

The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

## 25 ▶ Financial Assets

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

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	2,567.4	1,720.1
of which:		
public-sector issuers	660.5	317.2
other issuers	1,906.9	1,402.9
of which:		
listed	2,477.2	1,591.7
unlisted	90.2	128.4
Equities	29.8	21.4
Investment certificates	145.3	142.6
Promissory note loans	277.3	127.6
Investments	106.3	107.1
<b>Total</b>	<b>3,126.1</b>	<b>2,118.8</b>

All financial assets are assigned to the available-for-sale category in accordance with IAS 39. The increase in bonds serves to strengthen our liquidity portfolio.

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

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	64.0	16.0
Equities	5.7	0.0
Investment certificates	6.7	-12.8
Promissory note loans	18.8	15.6
Investments	40.4	35.9
<b>Total</b>	<b>135.6</b>	<b>54.7</b>

The recovery on both bond and equity markets has significantly increased the positive difference.

## 26 ▶ Share of Profit in Associates

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

in €m	2009	2008
<b>Book value as at 1 January</b>	<b>10.1</b>	<b>15.2</b>
Additions	0.3	0.0
Share of results of financial year	0.6	0.5
Elimination of interim result	0.0	0.0
Dividend distribution	-0.4	-0.8
Disposals	0.0	-4.8
<b>Book value as at 31 December</b>	<b>10.6</b>	<b>10.1</b>

In addition to the associated company SINO AG, Düsseldorf, the participating interest in the HSBC Global Asset Management (Switzerland) AG, Zürich, joint venture was also consolidated at equity in the 2009 financial year. The market value of the retained SINO AG shares amounted

to € 6.3 million as at the balance sheet date (2008: € 5.8 million). All in all, the assets and the liabilities of the companies consolidated at equity amount to € 10.2 million and € 7.0 million respectively, on profit before taxes of € 4.0 million.

## 27 ▶ Investment Overview

in €m	Land and property	Operating and of- fice equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2009	94.3	62.0	156.3	95.5
Increases	0.2	14.4	14.6	3.8
Disposals	2.5	6.0	8.5	0.0
Acquisition costs as at 31.12.2009	92.0	70.4	162.4	99.3
Depreciation as at 01.01.2009	35.5	39.7	75.2	39.5
Scheduled depreciation	1.3	8.5	9.8	9.5
Non-scheduled depreciation	0.3	0.0	0.3	6.2
Depreciation of reversals	0.9	5.3	6.2	0.0
Depreciation as at 31.12.2009	36.2	42.9	79.1	55.2
Carrying amount as at 31.12.2009	55.8	27.5	83.3	44.1
Carrying amount as at 31.12.2008	58.8	22.3	81.1	56.0

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

## 28 ▶ Taxation recoverable

in €m	31.12.2009	31.12.2008
Current taxation recoverable	13.0	13.0
Deferred taxation recoverable	0.0	4.5
<b>Total</b>	<b>13.0</b>	<b>17.5</b>

Current taxation recoverable relates predominately to domestic taxes.

## 29 ▶ Other Assets

Other assets of € 194.8 million (2008: € 259.2 million) include one building (2008: two) with a book value totaling € 128.8 million (2008: € 154.7 million), which is marketed within the framework of a closed-end property fund. In this context, interest on borrowing of € 4.8 million (2008: € 9.3 million) was capitalised.

Additionally, this item predominately includes excess cover from our CTA of € 18.7 million (2008: € 16.5 million) and other taxes of € 11.9 million (2008: € 18.4 million).

### 30 ▶ Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	126.9	145.5
Profit-participation certificates	6.7	22.1
<b>Total</b>	<b>133.6</b>	<b>167.6</b>

### 31 ▶ Repurchase Agreements and Securities Lending

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

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

in €m	31.12.2009		31.12.2008	
	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	38.0	11.4	47.5	20.9
<b>Total</b>	<b>38.0</b>	<b>11.4</b>	<b>47.5</b>	<b>20.9</b>

The following table provides an overview of the securities received:

in €m	31.12.2009		31.12.2008	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	88.9	72.3	86.9	72.3
of which may be sold or pledged	88.9		86.9	
of which are already sold or pledged	0.0		0.0	
Securities lending transactions	69.5	0.3	221.4	2.1
of which may be sold or pledged	60.9		157.5	
of which are already sold or pledged	8.6		63.9	
<b>Total</b>	<b>158.4</b>	<b>72.6</b>	<b>308.3</b>	<b>74.4</b>

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

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

## 32 ▶ Deposits by Banks

in €m	31.12.2009	31.12.2008
Current accounts	563.5	625.3
Money market transactions	1,961.3	1,869.5
of which overnight money	11.9	26.4
of which term deposits	1,949.4	1,843.1
Other liabilities	172.8	214.3
<b>Total</b>	<b>2,697.6</b>	<b>2,709.1</b>
of which domestic banks	741.5	858.0
of which foreign banks	1,956.1	1,851.1

As at 31 December 2009 deposits by banks secured by charges on real property amounted to € 65.6 million (2008: € 20.1 million). In addition to the balances on our

accounts held with our correspondent banks, deposits by banks comprise mainly deposits from other banks of the HSBC Group.

### 33 ▶ Customer Accounts

in €m	31.12.2009	31.12.2008
Current accounts	5,686.8	6,064.5
Money market transactions	3,040.4	5,066.4
of which overnight money	346.4	685.8
of which term deposits	2,694.0	4,380.6
Savings deposits	33.6	12.9
Other liabilities	301.3	449.0
<b>Total</b>	<b>9,062.1</b>	<b>11,592.8</b>
of which domestic customers	6,193.1	8,707.4
of which foreign customers	2,869.0	2,885.4

Customer accounts continue to represent our main refinancing source. The change in customer accounts is largely due to a decline in term deposits, which were at

an extremely high level owing to the crisis affecting financial markets in the previous year.

### 34 ▶ Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10 million (2008: € 10 million).

### 35 ▶ Trading Liabilities

in €m	31.12.2009	31.12.2008
Negative market value of derivatives	2,452.9	3,190.8
Discount certificates, promissory note loans, bonds and warrants	2,637.1	2,852.4
Delivery obligations arising from securities sold short	17.7	39.5
Securities lending	11.4	20.9
Security in the derivatives business	74.4	47.2
Derivatives held in the banking book	0.0	2.1
Derivatives in hedging relationships	3.2	0.0
<b>Total</b>	<b>5,196.7</b>	<b>6,152.9</b>

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

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

## 36 ▶ Provisions

in €m	As at 01.01.2009	Utilisation	Reversals	Additions/ compounding	Trans- fers	Actuarial result	At 31 De- cember 2009
Provisions for pensions and similar obligations	11.2	3.8	0.0	4.1	2.2	-1.6	12.1
Provisions related to human resources	57.0	46.8	1.4	49.8	0.0	0.0	58.6
Provisions for credit risks	6.8	0.0	2.0	2.0	0.0	0.0	6.8
Provisions for other taxes	2.7	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	39.7	8.1	5.4	45.8	0.0	0.0	72.0
<b>Provisions</b>	<b>117.4</b>	<b>58.7</b>	<b>8.8</b>	<b>101.7</b>	<b>2.2</b>	<b>-1.6</b>	<b>152.2</b>

### Provisions for Pensions and Similar Obligations

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

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

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

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.8 million in the year under report (2008: € 4.6 million).

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

in %	31.12.2009	31.12.2008
Long-term base rate of interest	5.5	5.75
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
<b>Estimated return on plan assets</b>	<b>6.0</b>	<b>6.0</b>

Due to the stabilisation on the money and capital markets, which resulted in falling risk premiums on fixed-rate industrial bonds, the base interest rate was lowered to 5.5 % in the year under report (2008: 5.75 %).

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments.

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2010.

### Development of Pension Obligations

in €m	2009	2008
<b>Pension obligations as at 1.1.</b>	<b>180.0</b>	<b>176.9</b>
Service costs	5.0	5.4
Interest expense	10.2	10.3
Pensions paid	-10.6	-9.9
Change in scope of consolidation	0.0	2.0
Transfers and others	0.0	0.1
Change in actuarial gains and losses	6.2	-4.8
<b>Pension obligations as at 31.12.</b>	<b>190.8</b>	<b>180.0</b>

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. An increase in the long-term base interest rate to 5.75 % would

lower the pension obligations by € 5.6 million. On the other hand, if the long-term base interest rate were to fall to 5.25 %, pension obligation would increase by € 5.9 million.

### Breakdown of Pension Obligations

in €m	2009	2008	2007	2006	2005
<b>Non-funded pension obligations</b>	<b>8.1</b>	<b>6.7</b>	<b>4.3</b>	<b>4.8</b>	<b>4.8</b>
<b>Funded pension obligations</b>					
Present value of pension obligations	182.7	173.3	172.6	192.4	198.0
Fair value of plan assets	197.4	185.3	201.7	196.6	181.6
<b>Balance</b>	<b>-14.7</b>	<b>-12.0</b>	<b>-29.1</b>	<b>-4.2</b>	<b>16.4</b>
of which plan shortfall	4.0	4.5	2.8	5.6	16.4
of which plan excess	18.7	16.5	31.9	9.8	0.0
<b>Total pension obligations</b>	<b>12.1</b>	<b>11.2</b>	<b>7.1</b>	<b>10.4</b>	<b>21.2</b>
of which actuarial gains and losses					
from plan assets	-16.6	-24.4	-1.1	0.4	1.2
from plan obligations	-17.6	-11.4	-16.2	-39.0	-49.5

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

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 23.3 million after taxes (2008:

€ 24.4 million). Although falling interest rates created actuarial losses on the obligations side, these were more than compensated for by the positive performance of the plan assets.

### Development of the Fair Value of Plan Assets

in €m	2009	2008
Fair value of plan assets as of 1.1.	185.3	201.7
Additions/withdrawals	-6.8	-5.8
Estimated income from plan assets	11.1	12.6
Change in scope of consolidation	0.0	0.1
Change in actuarial gains and losses	7.8	-23.3
Fair value of plan assets as of 31.12.	197.4	185.3

The actual profits from plan assets in the year under report amounted to € 18.9 million (2008: losses of € 10.7 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial

result by € 0.4 million. An increase in the planned return to 6.25 % would have reduced the actuarial result by € 0.5 million.

### Breakdown of the Fair Value of Plan Assets

in €m	2009	2008
Bonds and other fixed-income securities	114.3	132.7
Equities	25.7	15.0
Discount/index certificates	20.7	9.5
Re-insurance claims from life insurance	15.0	14.1
Investment funds	6.7	4.6
Closed-end property funds	4.0	4.0
Other	11.0	5.4
Fair value of plan assets as of 31.12.	197.4	185.3

Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

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

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

Other provisions include above all provisions for contingent liabilities, especially in conjunction with risks in the property business, with interest rate risks from tax audits as well as IT services still subject to final negotiations.

## 37 ▶ Taxation

in €m	31.12.2009	31.12.2008
Current taxation	61.1	81.5
Deferred taxation	6.6	3.6
<b>Total</b>	<b>67.7</b>	<b>85.1</b>

Current taxation includes provisions for taxation that are likely to be paid on the basis of the tax accounts of the fully consolidated Group companies, less previous tax prepayments; our obligations arising from any taxation to be paid as a result of current and future audits are also reported under this item.

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

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

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

in €m	31.12.2009	31.12.2008	Change
<b>As shown in the balance sheet</b>			
Share-based payments	7.2	6.3	0.9
Trading portfolio*	6.0	3.8	2.2
Intangible assets	2.1	2.1	0.0
Loss carried forward	0.0	-1.1	1.1
Derivatives held in the banking book	-0.7	-3.0	2.3
Buildings	-1.1	-0.9	-0.2
Net loan impairment and other credit risk provisions	-2.0	1.6	-3.6
Pensions	-2.4	-3.1	0.7
Financial assets	-8.3	0.1	-8.4
Provisions	-10.0	-2.3	-7.7
<b>Recognised in the Income Statement</b>	<b>-9.2</b>	<b>3.5</b>	<b>-12.7</b>
Financial Instruments	26.8	7.0	19.8
Foreign currency translation	-0.1	0.0	-0.1
Pensions	-10.9	-11.4	0.5
<b>With effect on equity</b>	<b>15.8</b>	<b>-4.4</b>	<b>20.2</b>
<b>Deferred taxes</b>	<b>6.6</b>	<b>-0.9</b>	<b>7.5</b>
of which taxation recoverable	0.0	4.5	-4.5
of which taxation	6.6	3.6	3.0

\* Balance from measurement differences in all trading activities

### 38 ▶ Other Liabilities

in €m	31.12.2009	31.12.2008
Liabilities from other taxes	10.6	15.8
Deferred income	22.6	27.5
Accrued interest on		
Subordinated liabilities	7.1	8.3
Participatory capital	4.9	7.4
Other	50.1	49.2
<b>Total</b>	<b>95.3</b>	<b>108.2</b>

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

### 39 ▶ Subordinated Capital

in €m	31.12.2009	31.12.2008
Subordinated liabilities (promissory note loans, bonds)	284.4	322.9
Participatory capital	100.0	135.8
<b>Total</b>	<b>384.4</b>	<b>458.7</b>

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or more occasions by 29 May 2011 up to a total amount of € 250 million. As in the previous year, no use was made of this facility in the last financial year.

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

Subordinated capital of € 365.8 million (2008: € 396.2 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to section 10 (5a) of the German Banking Act (KWG).

For the 2009 financial year, interest payable amounts to € 14.1 million (2008: € 16.2 million) on subordinated liabilities and to € 6.1 million (2008: € 7.4 million) on profit-participation certificates.

## Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
5 % or lower	100.2	128.2
Over 5 % up to 8 %	159.2	169.7
Fixed rates	259.4	297.9
Variable rates	25.0	25.0
<b>Total</b>	<b>284.4</b>	<b>322.9</b>

Repayment	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
Up to 1 year	6.0	38.5
Over 1 year up to 5 years	80.2	86.2
Over 5 years	198.2	198.2
<b>Total</b>	<b>284.4</b>	<b>322.9</b>

## 40 ▶ Shareholders' Equity

As at 31 December 2009, share capital was unchanged at € 70.0 million. As before, this is divided into 26,100,000 notional no par value shares.

The Management Board is authorised to increase the share capital by up to € 35.0 million on or before 31 May 2013, with the Supervisory Board's approval, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 35.0 million by means of issuing no-par value bearer shares. The conditional capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants or profit participations rights to be issued on or before 31 May 2013 (conditional capital).

### Valuation reserve for financial instruments

The change in the valuation reserve for financial instruments, as part of retained earnings, was as follows:

in €m	2009	2008
Net valuation reserve as at 1.1.	47.5	76.2
Disposals (gross)	2.7	-28.6
Market fluctuations (gross)	54.3	-44.2
Impairments (gross)	23.9	43.7
Deferred taxes	-19.8	0.4
<b>Net valuation reserve as at 31.12.</b>	<b>108.6</b>	<b>47.5</b>

### Shareholders' Equity in Accordance with the German Banking Act (KWG)

A bank's capital for regulatory purposes is divided into three components – core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily share capital plus the capital reserve and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominately of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks, and to back them with eligible capital.

Market risks result from the interest rate and share price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be backed only by core and supplementary capital, while market risk can also be backed by tertiary funds. The minimum mandatory total capital ratio is 8%. At the same time, at least 4% of the risk-weighted assets must be backed by core capital. The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2009	2008
<b>Core capital (Tier I)</b>		
Consolidated, core capital as disclosed on the balance sheet	858	803
Intangible assets	-41	-49
<b>Total core capital</b>	<b>817</b>	<b>754</b>
<b>Supplementary capital (Tier II)</b>		
Subordinated liabilities	263	294
Participatory capital	100	100
Unrealised profits from listed securities	47	31
Consolidation	-15	-14
<b>Total supplementary capital</b>	<b>395</b>	<b>411</b>
Adjustment items	-52	-14
<b>Regulatory capital excluding ancillary capital</b>	<b>1,160</b>	<b>1,151</b>
<b>Ancillary capital (Tier III)</b>	<b>0</b>	<b>0</b>
<b>Total regulatory capital</b>	<b>1,160</b>	<b>1,151</b>
Risk-weighted assets	5,925	6,825
Market risk equivalent	800	813
Operational risk	1,125	950
<b>Risk exposure</b>	<b>7,850</b>	<b>8,588</b>
<b>Core capital ratio in %</b>	<b>10.4</b>	<b>8.8</b>
<b>Equity ratio in %</b>	<b>14.8</b>	<b>13.4</b>

Thanks to our good capitalisation, we have been able to continue to pursue our growth strategy within the framework of our successful business model.

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements quite considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10%. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements our management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk-measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees, and the statistical databases feature different qualities, so that an aggregation of the risk is not quite without its problems. We continued to refine the calculation of economic capital requirements in 2009.

Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate. This is also confirmed by the business results for the 2009 financial year.

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

#### **41 ▶ Minority Interests**

Minority interests comprise investments in one closed-end property fund (2008: two) that is fully consolidated in the consolidated financial statements.

# Notes on the Consolidated Income Statement

## 42 ▶ Net Interest Income

in €m	2009	2008
<b>Interest income</b>	<b>235.1</b>	<b>397.6</b>
From loans and advances to banks	36.4	127.0
Money market transactions	30.9	111.1
Other interest-bearing receivables	5.4	15.9
Reverse repos	0.1	0.0
From loans and advances to customers	95.9	190.6
Money market transactions	21.6	55.7
Other interest-bearing receivables	74.3	134.9
From financial assets	102.8	80.0
Interest income	99.4	77.2
Dividend income	2.2	0.6
Income from subsidiaries	1.2	2.2
<b>Interest expense</b>	<b>91.8</b>	<b>258.1</b>
From deposits by banks	17.2	60.0
Money market transactions	12.3	47.9
Other interest-bearing deposits	4.9	12.1
From customers accounts	53.9	174.0
Money market transactions	23.3	82.7
Other interest-bearing deposits	30.6	91.3
From securitised liabilities	0.4	0.4
From subordinated capital	20.2	23.6
Other	0.1	0.1
<b>Net interest income</b>	<b>143.3</b>	<b>139.5</b>

During the year under report, we achieved net interest income of € 143.3 million (2008: € 139.5 million) and therefore succeeded once again in exceeding the previous year's level.

The general fall in interest rates led to a significant decline in interest income and interest expense in the year under report.

The decline in the margin in the deposit-taking business on almost unchanged average volume for the year led to lower net interest income in our client business, which could not be offset by higher margins in the lending business. Financial assets were responsible for the material improvement in interest income since we invested a considerable portion of our liquidity in bonds with impeccable ratings.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 4.5 million (2008: € 5.3 million).

## 43 ▶ Share of Profit in Associates

The share of profit in associates resulted mainly from our interest in SINO AG. At € 0.6 million, the result is down slightly on last year (2008: € 0.5 million).

In the year under report, HSBC Global Asset Management (Switzerland) AG, Zürich, was accounted for at equity for the first time as a joint venture (cf. Note 1).

#### 44 ▶ Net Loan Impairment and Other Credit Risk Provisions

in €m	2009	2008
Additions	27.9	7.0
Reversals	5.5	2.4
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.1
<b>Total</b>	<b>22.4</b>	<b>4.5</b>

Additions to net loan impairment and other credit risk provisions amounted to € 22.4 million (2008: € 4.5 million). The increase is largely attributable to additions of € 18.9 million to individually assessed impairments due to the threat of defaults in a small number of high-volume credit exposures. Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks. This once again facilitated the reversal of individually assessed impairments in the amount of € 5.5 million in the year under report (2008: € 2.4 million).

In addition, collectively assessed impairments increased by € 9.0 million (2008: € 3.4 million), thus reflecting the general economic downturn and the associated higher potential risks in our loan book.

#### 45 ▶ Net Fee Income

in €m	2009	2008
Securities transactions	236.7	231.6
Foreign exchange transactions and derivatives	51.6	61.0
Issuing and structuring business	13.7	10.9
Foreign business	12.5	13.5
Lending	8.8	5.0
Payments	6.6	6.0
Investment banking	3.1	2.7
Real estate	1.2	0.3
Other fee-based business	12.0	16.6
<b>Total</b>	<b>346.2</b>	<b>347.6</b>

The fee-based business, which accounted for 55.9 % of operating profit (2008: 59.0 %), remains a crucial factor to the Bank's success. We achieved another favourable result of € 346.2 million and are therefore almost on par with the previous year's level (2008: € 347.6 million).

On account of the burgeoning optimism on equity markets in the second half of the year, we achieved an increase of € 5.1 million or 2.2 % for the year as a whole, despite fewer securities transactions in the first half-year. The € 2.8 million increase in the issuing and structuring business to € 13.7 million is also positive. This,

together with the € 3.8 million increase in the lending business to € 8.8 million (2008: € 5.0 million), reflects the confidence placed by our clients in our ability to raise external capital and their perception of us as a reliable partner.

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

## 46 ▶ Net Trading Income

in €m	2009	2008
Equities and equity/index derivatives	63.9	87.0
Bonds and interest rate derivatives	46.2	2.4
Foreign exchange	7.8	8.8
Derivatives held in the banking book	5.1	-11.1
<b>Total</b>	<b>123.0</b>	<b>87.1</b>

At € 123.0 million, net trading income is significantly higher than last year's result (2008: € 87.1 million). This increase is due largely to our interest-related business, where we succeeded in increasing our result by € 43.8 million, to € 46.2 million (2008: € 2.4 million). The extraordinarily good result generated in money market trading was based on our excellent liquidity situation. In addition, the spread-tightening associated with the stabilisation of the money and capital markets led to significant valuation gains on fixed-income securities, which met set against considerable valuation losses the year before.

Trading in equity and equity/index derivatives fell by € 23.1 million to € 63.9 million (2008: € 87.0 million) in the year under report. This development is largely attributable to the slump in demand for investment certificates. We substantially extended our market share in the business with trading-oriented retail products and therefore formed the basis further positive net trading income.

The valuation losses incurred in the previous year on derivatives held in the bank book were offset again in part.

## 47 ▶ Administrative Expenses

in €m	2009	2008
Staff expenses	237.9	232.3
Wages and salaries	205.4	202.8
Social security costs	21.9	21.5
Expenses for retirement pensions and other employee benefits	10.6	8.0
Other administrative expenses	137.4	134.4
Depreciation of property, plant and equipment and of intangible assets	25.5	17.5
<b>Total</b>	<b>400.8</b>	<b>384.2</b>

Other administrative expenses include € 24.3 million (2008: € 18.8 million) in expenses arising from rental and lease payments.

Administrative expenses climbed moderately in the year under report, by € 16.6 million or 4.3 % to € 400.8 million (2008: € 384.2 million). This was due to a slight increase in staff expenses, which is reflected by a corresponding rise in the number of staff employed. Furthermore, increased expenses for payments to the Pension Security Association were taken into account.

The increase in other administrative expenses includes, among other things, higher contributions to the deposit guarantee fund (Einlagensicherungsfond).

The significantly higher impairment losses result from goodwill impairment created in the year under report in conjunction with the business combination in 2008 with the former ITS (now known as HSBC Transaction Services) (cf. Note 4). An extraordinary impairment loss of € 1.9 million (2008: € 0.0 million) on software components that were no longer required was also taken into consideration in the year under report (cf. Note 27).

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

in €m	2009	2008
Expenses for defined benefit plans	4.1	3.1
of which current service costs	5.0	5.4
of which interest expense	10.2	10.3
of which estimated income from the plan assets	-11.1	-12.6
Expenses for defined contribution plans	4.8	4.6
Other expenses for retirement provisions	1.7	0.3
<b>Total</b>	<b>10.6</b>	<b>8.0</b>

#### 48 ▶ Income from Financial Assets

A loss of € 24.0 million from financial assets was reported in 2009 compared with a loss of € 50.0 million the year before, largely on account of impairments on our portfolio. Overall, we recognised impairments in the amount of € 23.9 million (2008: € 43.7 million), a large proportion of which is accounted for by equity and investment funds in the banking book that showed signs of a significant or permanent impairment, and were therefore written down to their lower market values in the income statement. In addition, fixed-income securities, whose ratings were downgraded, were written to their lower market values.

At the same time, write-ups of € 1.8 million (2008: € 0.0 million) on previously impaired fixed-income securities could also be taken into account.

On balance, the sale of financial assets – investment funds in particular – generated a loss of € 2.7 million, compared with a loss of € 6.3 million the year before.

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

in €m	2009	2008
<b>Income statements</b>		
Net gain/loss from disposal	-2.7	-6.3
Tax expenses	0.9	2.0
<b>Net realisation gain in the income statement</b>	<b>-1.8</b>	<b>-4.3</b>
<b>Performance of the gross valuation reserve for financial instruments</b>		
Change from disposals (derecognition)	2.7	6.3
of which volatility in the year under report	-1.7	19.2
of which volatility in previous years	4.4	-12.9
<b>Performance of corresponding tax expenses</b>		
Change from disposals (derecognition)	-0.9	-2.0
of which volatility in the year under report	0.5	-6.1
of which volatility in previous years	-1.4	4.1

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

in €m	2009	2008
<b>Income statement</b>		
Impairments/write-ups on financial instruments	-23.9	-43.7
<b>Performance of the valuation reserve for financial instruments</b>		
Changes from impairments/write-ups	23.9	43.7
of which volatility in the year under report	17.0	42.9
of which volatility in previous years	6.9	0.8
<b>Performance of corresponding tax expenses</b>		
Changes from impairments/write-ups	-4.1	-16.3
of which volatility in the year under report	-2.9	-16.0
of which volatility in previous years	-1.2	-0.3

#### 49 ▶ Net Other Income / Expenses

in €m	2009	2008
Other operating income	20.0	10.0
Other operating expenses	8.4	6.5
<b>Other operating income / expenses</b>	<b>11.6</b>	<b>3.5</b>
Other income	2.4	0.1
Other expenses	16.2	1.4
<b>Other net income</b>	<b>-13.8</b>	<b>-1.3</b>
<b>Net other income / expenses</b>	<b>-2.2</b>	<b>2.2</b>

Other operating income essentially includes € 4.6 million (2008: € 4.9 million) from the reversal of other provisions, € 3.9 million (2008: € 0.0 million) from the placement of real estate funds and € 3.8 million (2008: € 1.7 million) in rental income.

Other operating income/expenses also include for the first time the hedge result that amounted to a loss of € 0.1 million (cf. Notes 6 and 59).

Other expenses of € 16.2 million (2008: 1.4 million) include for the most part provisions of € 15.6 million for the business with closed-end real estate fund plus impairments of € 0.3 million (2008: € 1.0 million) on land and property. The impairment is recognised on the basis of the annual valuation carried out by an external appraiser on the respective reporting date and reflects the change in the economic valuation of a property. For the

purposes of segment reporting, impairments are allocated to the "Central Divisions/Consolidation" business segment (cf. Note 54).

As in the previous year, no write-ups were required on land and property in the year under report.

Other net income also includes gains/losses from the disposal of property, plant and equipment totalling € 2.1 million (2008: € 0.3 million). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

## 50 ▶ Tax Expenses

in €m	2009	2008
Current taxes	66.8	100.5
of which off-period	0.2	-2.5
Deferred taxes from change in limited valuation differences	-12.5	-51.9
Deferred taxes from changes to the tax rates	0.0	0.0
<b>Total</b>	<b>54.3</b>	<b>48.6</b>

As in the previous year, the effective corporation tax in Germany is 15.8%. Taking trade income tax into account, the combined tax rate is unchanged at approximately 32.0%. The rate also forms the basis for calculating deferred taxes.

The following table shows the relationship between tax expenses derived from profit before taxes and the actual tax expenses reported.

in €m	2009	2008
Pre-tax profit	163.7	146.2
Tax rate (%)	32.0	32.0
Tax expenses derived from profit before taxes	52.4	46.7
Tax rate differential on income proportions subject to taxation outside of Germany	-1.6	-1.0
Effect from unused losses carried forward	0.5	2.0
Effect from tax-exempt income and non-tax deductible expenses in accordance with Section 8 b KStG	0.0	0.9
Taxes for previous years	0.2	-2.1
Non-deductible expenses from share-based payments	1.6	0.3
Modifications for the purposes of trade tax	0.9	1.2
Miscellaneous	0.5	0.6
<b>Reported taxation</b>	<b>54.5</b>	<b>48.6</b>

## 51 ► Calculation of Operating Profit

in €m	2009	2008	Change	
			in €m	in %
Interest income	235.1	397.6	-162.5	-40.9
Interest expense	91.8	258.1	-166.3	-64.4
Net interest income	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	22.4	4.5	17.9	>100.0
Net interest income after net loan impairment and other credit risk provisions	120.9	135.0	-14.1	-10.4
Share of profit in associates	0.6	0.5	0.1	20.0
Fee income	575.1	606.5	-31.4	-5.2
Fee expenses	228.9	258.9	-30.0	-11.6
Net fee income	346.2	347.6	-1.4	-0.4
Net trading income	117.9	98.2	19.7	20.1
Staff expenses	237.9	232.3	5.6	2.4
Other administrative expenses	162.9	151.9	11.0	7.2
Administrative expenses	400.8	384.2	16.6	4.3
Other operating income/expenses	11.6	3.5	8.1	>100.0
<b>Operating profit</b>	<b>196.4</b>	<b>200.6</b>	<b>-4.2</b>	<b>-2.1</b>
Income from financial assets	-24.0	-50.0	26.0	-52.0
Income from derivatives in the bank book	5.1	-11.1	16.2	>100.0
Other net income	-13.8	-1.3	-12.5	>100.0
<b>Pre-tax profit</b>	<b>163.7</b>	<b>138.2</b>	<b>25.5</b>	<b>18.5</b>
Tax expenses	54.5	48.6	5.9	12.1
<b>Net profit for the year</b>	<b>109.2</b>	<b>89.6</b>	<b>19.6</b>	<b>21.9</b>

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 50). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 54).

Operative trading profit comprises net trading income from our trading desks but does not include results from derivatives held in the banking book.

## 52 ▶ Income Statement by Measurement Category

The following overview includes on the one hand net profit or net loss for every IAS 39 measurement category of financial assets and financial liabilities. Net profits/losses are a net earnings indicator comprising changes in market value recognised in the income state-

ment, disposals of financial instruments, impairments and currency translation effects if necessary. On the other hand, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31.12.2009 in €m	Loans and receivables	Other fi- nancial instru- ments	Held- for- Trading	Derivatives in hedging relation- ships	Availa- ble-for- sale	Other finan- cial liabilities	Other	Total
Net interest income								
Interest income	128.9	3.4			102.8			235.1
Interest expense						-91.8		-91.8
Net fee income								
Fee income	9.1						566.0	575.1
Fee expenses	-0.3						-228.6	-228.9
Net trading income								
			123.0					123.0
Income from financial assets								
					15.5			15.5
Net other income/expenses								
				-0.7	0.6		-2.1	-2.2
Impairments								
Net loan impairment and other credit risk provisions								
	-18.6						-3.8	-22.4
Income from financial assets								
					-39.5			-39.5
<b>Total</b>	<b>119.1</b>	<b>3.4</b>	<b>123.0</b>	<b>-0.7</b>	<b>79.4</b>	<b>-91.8</b>	<b>331.5</b>	<b>563.9</b>

Measurement category 31.12.2008 in €m	Loans and receivables	Other fi- nancial instru- ments	Held- for- Trading	Derivatives in hedging relation- ships	Availa- ble-for- sale	Other finan- cial liabilities	Other	Total
Net interest income								
Interest income	3076	10.0			80.0			3976
Interest expense						-258.1		-258.1
Net fee income								
Fee income	5.1						601.4	606.5
Fee expenses	-0.1						-258.8	-258.9
Net trading income								
			87.1					87.1
Income from financial assets								
					-6.3			-6.3
Net other income/expenses								
							2.2	2.2
Impairments								
Net loan impairment and other credit risk provisions								
	-5.9						1.4	-4.5
Income from financial assets								
					-43.7			-43.7
<b>Total</b>	<b>306.7</b>	<b>10.0</b>	<b>87.1</b>	<b>0.0</b>	<b>30.0</b>	<b>-258.1</b>	<b>346.2</b>	<b>521.9</b>

## Other Notes

### 53 ▶ Notes to the Cash Flow Statement

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

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

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

### **Cash and Cash Equivalents**

As in the previous year, the cash and cash equivalents of € 177.0 million (2008: € 139.5 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

### **Cash Flow from Operating Activities**

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

Consolidated net profit for the year of € 109.2 million (2008: € 89.6 million) is the input figure for the cash flow statement. Gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € 101.7 million (2008: € 30.3 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

### **Cash Flow from Investing Activities**

Spending on the acquisition of property, plant and equipment totalled € 18.6 million in the 2009 financial year (2008: € 22.8 million). The sale of property, plant and equipment realised € 4.5 million (2008: € 1.0 million) for the Group. In the 2009 financial year, the sale and purchase of financial assets realised a net outgoing payment of € 0.9 million (2008: € 2.5 million receipt of payment).

### **Cash Flow from Financing Activities**

Cash flow from financing activities includes the dividend of € 65.3 million for the 2009 financial year (2008: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in a payment of € 74.3 million (2008: € 0.0 million).

## 54 ▶ Segment Reporting

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

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

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

### **Private Banking**

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

### **Corporate Banking**

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

### **Institutional Clients**

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

### **Global Markets**

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

### **Central Divisions / Consolidation**

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

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

Segment reporting by business division for 2009 and 2008 is as follows:

		Private Banking	Corpo- rate Banking	Institu- tional Clients	Global Markets	Central Divi- sions/ Consoli- datin	Economic Group result	Consoli- dation/ Recon- ciliation	Total
€m									
Net interest income	2009	14.4	44.8	1.9	10.6	71.6	143.3	0.0	143.3
	2008	13.6	43.6	4.2	10.3	67.8	139.5	0.0	139.5
Net loan impairment and other credit risk provisions	2009	1.8	8.7	1.3	0.2	0.7	12.7	9.7	22.4
	2008	1.3	6.7	0.8	0.3	1.8	10.9	-6.4	4.5
Net interest income after net loan impairment and other credit risk provisions	2009	12.6	36.1	0.6	10.4	70.9	130.6	-9.7	120.9
	2008	12.3	36.9	3.4	10.0	66.0	128.6	6.4	135.0
Share of profit in associates	2009	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
	2008	0.0	0.0	0.0	0.0	0.5	0.5	0.0	0.5
Net fee income	2009	83.1	92.4	146.1	2.5	22.1	346.2	0.0	346.2
	2008	96.7	91.4	145.5	4.6	9.4	347.6	0.0	347.6
Net trading income	2009	0.0	-0.2	11.0	105.4	1.7	117.9	0.0	117.9
	2008	0.0	0.1	3.5	112.9	-18.3	98.2	0.0	98.2
Income after loan impair- ment and other credit risk provisions	2009	95.7	128.3	157.7	118.3	95.3	595.3	-9.7	585.6
	2008	109.0	128.4	152.4	127.5	57.6	574.9	6.4	581.3
Administrative expenses	2009	64.4	74.3	90.6	52.6	118.9	400.8	0.0	400.8
	2008	67.9	76.7	91.0	55.5	93.1	384.2	0.0	384.2
of which depreciation and amortisation	2009	1.5	1.1	0.6	0.6	21.7	25.5	0.0	25.5
	2008	1.4	1.0	0.9	0.6	13.6	17.5	0.0	17.5
Other operating income/ expenses	2009	-2.2	0.0	0.0	0.0	13.8	11.6	0.0	11.6
	2008	0.0	0.0	0.0	0.0	3.5	3.5	0.0	3.5
Operating profit	2009	29.1	54.0	67.1	65.7	-9.8	206.1	-9.7	196.4
	2008	41.1	51.7	61.4	72.0	-32.0	194.2	6.4	200.6
Income from financial assets	2009	0.0	0.0	0.0	0.0	-24.0	-24.0	0.0	-24.0
	2008	0.0	0.0	0.0	0.0	-50.0	-50.0	0.0	-50.0
Income from derivatives in the bank book	2009	0.0	0.0	0.0	0.0	5.1	5.1	0.0	5.1
	2008	0.0	0.0	0.0	0.0	-11.1	-11.1	0.0	-11.1
Other net income	2009	0.0	0.0	0.0	0.0	-13.8	-13.8	0.0	-13.8
	2008	0.0	0.0	0.0	0.0	-1.3	-1.3	0.0	-1.3
Profit before taxes	2009	29.1	54.0	67.1	65.7	-42.5	173.4	-9.7	163.7
	2008	41.1	51.7	61.4	72.0	-94.4	131.8	6.4	138.2
Taxation	2009	9.1	17.3	21.5	21.0	-14.4	54.5	0.0	54.5
	2008	12.8	16.5	19.6	23.0	-25.3	46.6	2.0	48.6
Net profit for the year	2009	20.0	36.7	45.6	44.7	-28.1	118.9	-9.7	109.2
	2008	28.3	35.2	41.8	49.0	-69.1	85.2	4.4	89.6
% change on previous year		-29.3	4.3	9.1	-8.8	-59.3	39.6	> 100.0	21.9

Despite the severe financial and economic crisis worldwide, all of the Bank's four core segments succeeded in generating high contributions to operating profit, thus documenting the strategic balance of HSBC Trinkaus' business activities and the strength of its client-based business model, which is supported by client-oriented trading operations. Diversification effects are reflected in the bank's ability to offset a fall in profits brought about by market fluctuations in individual areas by improved results in other segments, or through new or additional business potential. The negative consequences of the financial and economic crisis impacted in particular on the banks' income from financial assets as well as on other net income, which are managed in the corporate centres. Nevertheless, the burden came in under that of the previous year and could be largely offset by profitable investment of economic capital.

The effects of the economic crisis required a significant increase in net loan impairment and other credit risk provisions in the second half of 2008. The difference to the standard risk costs from the bank's credit model used in the five segments had the effect of reducing income within the scope of the reconciliation to group net loan impairment and other credit risk provisions as a whole, compared with a positive figure the year before.

The Institutional Clients segment was particularly successful, with the highest contribution to results and recording the highest percentage increase in results of all the bank's four core segments. High net fee income and net trading income generated by the fixed income business more than compensated for falling revenues in the asset management and equities business. The fixed-income business benefited from the numerous new issues that were managed by the HSBC Group as well as by the greater diversity of products brought about by the integration in HSBC Group.

The Corporate Banking segment improved on last year's results, especially net fee income from the origination and placement of fixed-income securities. Net interest income was also increased further. Despite the growth in volume of current account balances of corporate clients over the year, interest income in the deposit-taking business was down due to lower margins as a consequence of the ECB's rate-cutting operations. However, this was compensated by higher margins generated by better interest income in the lending business.

In contrast, the cautious stance adopted by many investors in the adverse market conditions meant that the Private Banking segment could only partially absorb the sharp fall in income earned in the securities business through the increase in interest income from the lending business, largely due to higher margins.

Global Markets failed to repeat the exceptionally good result attained in the previous year. Further improvement in the income generated by Treasury activities and increase in equity trading did not suffice to offset the lower income from equity derivatives and foreign exchange trading.

Thanks to strict cost discipline, the Bank avoided an increase in administrative expenses in the four main segments. The more than proportionate rise in costs in the corporate centres is largely explained by the considerable increase in payments to the deposit guarantee fund and the Pension Security Association.

		Private Banking:	Corporate Banking	Institutional Clients	Global Markets	Central Divisions/Consolidation	Total	Adjustments	Values as at balance sheet date
Cost:income ratio in %	2009	67.6	54.2	57.0	44.4	0.0	68.3	0.0	68.3
	2008	61.6	56.8	59.4	43.4	0.0	72.9	0.0	72.9
Assets* in €m	2009	613.0	2,018.0	2,083.5	8,059.3	7,988.7	20,762.5	-2,033.9	18,728.6
	2008	786.0	2,616.0	1,196.4	5,576.5	10,847.6	21,022.5	1,183.2	22,205.7
Liabilities* in €m	2009	3,410.0	4,256.0	1,657.3	2,949.4	7,394.4	19,667.1	-2,700.7	16,966.4
	2008	4,002.0	3,406.0	1,642.4	2,328.8	8,624.6	20,003.8	461.0	20,464.8
Items for mandatory inclusion* in €m	2009	501.4	2,850.8	740.5	693.2	3,344.3	8,130.2	-280.2	7,850.0
	2008	507.5	2,911.2	609.9	599.8	4,195.2	8,823.6	-235.6	8,588.0
Attributable shareholders' equity* in €m	2009	140.1	328.1	159.2	155.5	167.1	950.0	112.5	1,062.5
	2008	135.6	327.9	143.8	143.0	174.4	924.7	30.3	955.0
Employees	2009	229	205	223	91	1,532	2,280		2,280
	2008	224	211	220	96	1,487	2,238		2,238
Return on equity before taxes (%)	2009	20.8	16.5	42.1	42.3		17.1		
	2008	30.3	15.8	42.7	50.4		15.2		

\* Annual average

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

The cost/income ratio is a measure of the divisions' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. This ratio has improved year-on-year in Institutional Clients and Corporate Banking. Global Markets and Private Banking reported a slight or significant deterioration respectively in their cost/income ratios, as their costs fell to a lesser extent than their income in percentage terms.

The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory risk items in a given segment.

The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the management information system.

The decrease in loans and advances to customers in the Private Banking and Corporate Banking segments was accompanied by a reduction in their items for mandatory inclusion, while the base amounts were increased. In the Institutional Clients and Global Markets segments, loans and advances to customers together with the items for mandatory inclusion and capital requirements developed in parallel.

In line with the development of operating profit, the return on equity in the Corporate Banking segment improved further, whilst falling in Private Banking and Global Markets. The Institutional Clients segment succeeded in almost replicating its high return on equity of the previous year.

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

€m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2009	135.4	26.4	1.9	163.7
	2008	110.6	26.2	1.4	138.2

Long-term segment assets amounted to € 256.2 million (2008: € 291.8 million) during the year under report, with Germany accounting for € 247.8 million (2008: € 298.8 million) thereof and the Luxembourg region for € 8.4 million (2008: € 2.0 million)

## 55 ▶ Measurement Classes

The following table provides an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available for sale	
Cash reserve		177.0			177.0
Loans and advances to banks	2,429.4				2,429.4
Loans and advances to customers *	2,644.6				2,644.6
Trading Assets			10,005.7		10,005.7
Financial assets		53.1		3,073.0	3,126.1
Other financial instruments	14.9	2.3			17.2
<b>Total financial instruments</b>	<b>5,088.9</b>	<b>232.4</b>	<b>10,005.7</b>	<b>3,073.0</b>	<b>18,400.0</b>
Other assets not included under IAS 39					328.6
<b>Total assets</b>					<b>18,728.6</b>

Liabilities as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Other financial commitments		Held-for-trading		
Deposits by banks		2,697.6			2,697.6
Customer accounts**		9,062.1			9,062.1
Certificated liabilities		10.0			10.0
Trading liabilities				5,196.7	5,196.7
Subordinated capital		384.4			384.4
Other financial instruments		55.0			55.0
<b>Total financial instruments</b>		<b>12,209.1</b>		<b>5,196.7</b>	<b>17,405.8</b>
Other liabilities not included under IAS 39					260.2
Shareholders' equity					1,062.5
Minority interests					0.1
<b>Total assets</b>					<b>18,728.6</b>

\* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.

\*\* Our customers' deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.08 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		139.5			139.5
Loans and advances to banks*	2,979.7				2,979.7
Loans and advances to customers *	4,061.2				4,061.2
Trading Assets			12,482.6		12,482.6
Financial assets		61.6		2,057.2	2,118.8
Other financial instruments	38.2	1.7			39.9
<b>Total financial instruments</b>	<b>7,079.1</b>	<b>202.8</b>	<b>12,482.6</b>	<b>2,057.2</b>	<b>21,821.7</b>
Other assets not included under IAS 39					384.0
<b>Total assets</b>					<b>22,205.7</b>

Liabilities as at 31.12.08 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Other financial commitments		Held-for-trading		
Deposits by banks		2,709.1			2,709.1
Customer accounts**		11,592.8			11,592.8
Certificated liabilities		10.0			10.0
Trading liabilities				6,152.9	6,152.9
Subordinated capital		458.7			458.7
Other financial instruments		50.5			50.5
<b>Total financial instruments</b>		<b>14,821.1</b>		<b>6,152.9</b>	<b>20,974.0</b>
Other liabilities not included under IAS 39					260.2
Shareholders' equity					955.0
Minority interests					16.5
<b>Total assets</b>					<b>22,205.7</b>

\* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.

\*\* Our customers' deposits are used in part internally to refinance our trading divisions.

## 56 ► Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 5.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at market value, i.e. book value equates to market value. Cash reserves,

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

€m	31.12.2009		31.12.2008	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Other financial instruments	172	172	39.9	39.9

€m	31.12.2009		31.12.2008	
	Book value	Fair value	Book value	Fair value
<b>Liabilities</b>				
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,697.6	2,697.6	2,709.1	2,708.5
Customer accounts (from the measurement of long-term promissory note loans borrowed)	9,062.1	9,094.8	11,592.8	11,579.6
Certificated liabilities	10.0	9.7	10.0	9.8
Subordinated capital	384.4	399.4	458.7	475.4
Other financial instruments	55.0	55.0	50.5	50.5

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships or unlisted public

limited companies for which there is no active market. Measurement is therefore at cost.

€m	31.12.2009	31.12.2008
	Book value	Book value
Partnerships	17.0	26.9
Holdings in unlisted public limited companies	36.1	34.7
<b>Total</b>	<b>53.1</b>	<b>61.6</b>

During the year under report, no partnerships, for which there is no active market, were disposed of

(2008: € 0.1 million); the Bank has no intentions at present to dispose of partnerships.

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2009		observed parameters	unobservable parameters		
€m					
Trading assets	1,551.1	8,416.7	379	0.0	10,005.7
of which derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Financial assets	627.1	2,438.5	7.4	53.1	3,126.1
Trading liabilities	614.3	4,499.7	82.8	0.0	5,196.7
of which derivatives in hedging relationships	0.0	3.2	0.0	0.0	3.2

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2008		observed parameters	unobservable parameters		
€m					
Trading assets	1,490.1	10,992.3	0.2	0.0	12,482.6
Financial assets	470.2	1,584.7	2.3	61.6	2,118.8
Trading liabilities	697.1	5,429.6	26.2	0.0	6,152.9

For some financial instruments, quoted prices could no longer be used as fair values (so-called level 1) during the year under report. They were measured instead at fair value using our own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

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

Level 2 transactions in interest rate instruments are generally valued using the discounted cash flow method or the Black-Scholes method. The parameters required here (swap rates and volatility) can also be observed on the market.

Transfers from level 1 into level 2 are attributable to the fact that quoted prices no longer represent a measure of value due to the low trading volume, and theoretical models provide a more reliable fair value here. These transfers amounted to € 512.3 million in the year under report.

Conversely, financial instruments in the amount of € 61.1 million were transferred from level 2 to level 1. The previously illiquid markets recovered almost fully, so that the quoted prices could be used as reliable fair values.

Additionally, the fair value of some financial instruments was calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include among other things equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in an analytical Black-Scholes approach. As a

rule, the correlation between the individual underlyings or between the underlying and the foreign currency represents the parameters that are not observed on the market.

In the year under report, the volume of level 3 financial instruments amounted to € 128.1 million (2008: € 28.7 million). The portfolio of level 3 financial instruments developed as follows in the year under report:

€m	Trading Assets	Financial assets**	Trading liabilities*	Total:
<b>01.01.2009</b>	0.2	2.3	26.2	<b>28.7</b>
<b>Unrealised profits/losses</b>	2.2	-2.1	6.3	<b>6.4</b>
of which:				
Income statement	2.2	-2.1	6.3	<b>6.4</b>
valuation reserve	0.0	0.0	0.0	<b>0.0</b>
<b>Realised profits/losses</b>	-0.8	0.0	-6.6	<b>-7.4</b>
of which:				
maturity	-0.8	0.0	-6.6	<b>-7.4</b>
sale	0.0	0.0	0.0	<b>0.0</b>
<b>New business</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
of which:				
purchases	0.0	0.0	0.0	<b>0.0</b>
issuance	0.0	0.0	0.0	<b>0.0</b>
<b>Transfer to level 3</b>	<b>36.3</b>	<b>7.2</b>	<b>56.9</b>	<b>100.4</b>
<b>Transfer out of level 3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>31.12.2009</b>	<b>37.9</b>	<b>7.4</b>	<b>82.8</b>	<b>128.1</b>

\* Realised and unrealised profits and losses on trading assets and liabilities are recorded in Net Trading Income in the Income Statement.

\*\* Level 3 financial assets are imbedded derivatives, whose measurement results are recorded in Net Trading Income.

No level 3 financial instruments were transferred to other fair value levels in the year under report. On the other hand, financial instruments in the amount of € 100.4 million were transferred from other fair value levels to level 3

(2008: € 28.7 million). The year-on-year increase is largely attributable to our policy of classifying structured products entirely as level 3, while only embedded derivatives were classified as such in the previous year.

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to € 1.9 million (2008: € 0.2 million). A 25 %

change in the unobservable parameters would lead to a € 0.6 million (2008: € 1.5 million) change in the market value.

## 57 ▶ Day-1 Profit or Loss

Financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a

day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

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

€m	2009	2008
<b>As at 1.1.</b>	<b>3.3</b>	<b>3.5</b>
New business	0.4	2.1
Day-1 profit or loss recognised in the income statement	-1.9	-2.3
of which positions closed out	-0.5	-1.3
of which matured transactions	-1.4	-1.0
of which observable market parameters	0.0	0.0
<b>As at 31.12.</b>	<b>1.8</b>	<b>3.3</b>

## 58 ▶ Holdings in Foreign Currency

As at 31 December 2009, assets denominated in a foreign currency were valued at € 1,097.2 million (2008: € 2,635.9 million) and the corresponding liabilities at € 1,797.1 million (2008: € 3,666.2 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

## 59 ▶ Derivatives Business

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

## Breakdown of the Derivatives Business by Nominal Amount

€m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008
<b>OTC products</b>	FRAAs	1,300	0	0	1,300	790
	Interest rate swaps	5,951	12,854	8,918	27,723	31,374
	Interest rate options	1,568	2,834	2,851	7,253	11,208
	Forward transactions	1,191	0	0	1,191	0
<b>Exchange-listed products</b>	Interest rate futures	366	220	0	586	2,394
	Interest rate options	37	0	0	37	382
	<b>Interest rate transactions</b>	<b>10,413</b>	<b>15,908</b>	<b>11,769</b>	<b>38,090</b>	<b>46,148</b>
<b>OTC products</b>	Foreign exchange forwards	22,882	1,044	2	23,928	27,451
	Cross currency swaps	528	115	12	655	397
	Foreign exchange options	2,511	243	0	2,754	5,437
	<b>Foreign exchange-based transactions*</b>	<b>25,921</b>	<b>1,402</b>	<b>14</b>	<b>27,337</b>	<b>33,285</b>
<b>OTC products</b>	Forward transactions	280	2	0	282	0
	Equity/index options	51	184	43	278	752
	Equity swaps	10	53	53	116	0
<b>Exchange-listed products</b>	Equity/index futures	502	0	0	502	653
	Equity/index options	4,329	1,355	0	4,841	7,109
	<b>Equity/index-based transactions</b>	<b>4,050</b>	<b>1,594</b>	<b>96</b>	<b>6,020</b>	<b>8,514</b>
	<b>Total financial derivatives</b>	<b>40,663</b>	<b>18,904</b>	<b>11,879</b>	<b>71,446</b>	<b>87,947</b>

\* including gold transactions

## Breakdown of the Derivatives Business by Market Value

€m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008	Total 2009	Total 2008
OTC products	FRA's	0	0	0	0	2	0	2
	Interest rate swaps	86	324	451	861	762	1,111	921
	Interest rate options	3	17	54	74	120	103	152
	Forward transactions	7	0	0	7	0	8	0
	<b>Interest rate transactions</b>	<b>96</b>	<b>341</b>	<b>505</b>	<b>942</b>	<b>884</b>	<b>1,223</b>	<b>1,075</b>
OTC products	Foreign exchange forwards	310	30	0	340	1,064	325	1,075
	Cross currency swaps	9	6	0	15	21	10	28
	Foreign exchange options	34	9	0	43	146	42	144
	<b>Foreign exchange-based transactions*</b>	<b>353</b>	<b>45</b>	<b>0</b>	<b>398</b>	<b>1,231</b>	<b>376</b>	<b>1,247</b>
OTC products	Forward transactions	137	0	0	137	0	204	0
	Equity/index options	14	47	0	61	108	47	207
	Equity swaps	0	0	0	0	0	15	0
	<b>Equity/index-based transactions</b>	<b>151</b>	<b>47</b>	<b>0</b>	<b>198</b>	<b>108</b>	<b>266</b>	<b>207</b>
	<b>Total financial derivatives</b>	<b>600</b>	<b>433</b>	<b>505</b>	<b>1,538</b>	<b>2,223</b>	<b>1,865</b>	<b>2,529</b>

\* including gold transactions

### Hedging Instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedged; cf. Note 6). This hedging relationship resulted in positive market

values of € 0.2 million as at 31 December 2009 (2008: € 0.0 million) as well as negative market values of € 3.2 million (2008: € 0.0 million).

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

Profit and loss in €m	2009	2008
From hedging instruments	-0.7	0.0
From underlying transactions	0.6	0.0

## 60 ▶ Contingent Liabilities and Other Obligations

in €m	31.12.2009	31.12.2008
Contingent liabilities on guarantees and indemnity agreements	1,569.2	1,747.5
Irrevocable loan commitments	3,290.2	3,489.2
<b>Total</b>	<b>4,859.4</b>	<b>5,236.7</b>

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 1.0 million (2008: € 1.6 million) is still outstanding. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are

also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.). Contingent liabilities also include € 1.3 million for early retirement schemes.

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 90.3 million (2008:€ 61.4 million) as at the balance sheet date.

in €m	31.12.2009	31.12.2008
Up to 1 year	27.7	24.3
Over 1 year up to 5 years	35.7	33.4
Over 5 years	26.9	3.7
<b>Total commitments arising from leasing and rental contracts</b>	<b>90.3</b>	<b>61.4</b>

The bank outsourced to external third parties the operation of two data-processing centres, the information centre for card payments and the establishment and operation of an account information centre in accordance

with section 24 c German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

## 61 ▶ Assets Pledged as Collateral

Securities with a nominal value of € 999.8 million (2008: € 1,066.3 million) were deposited as collateral for transactions on Eurex and for securities lending transactions (cf. Note 31).

Debt instruments with a nominal value of € 4,879.1 million (2008: € 4,155.5 million) were available for use as collateral for peak funding facilities on the balance sheet date.

## 62 ▶ Trust Activities

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

in €m	31.12.2009	31.12.2008
<b>Trust assets</b>	<b>361.1</b>	<b>318.8</b>
Loans and advances to banks	158.5	125.7
Loans and advances to customers	51.8	76.6
Investments	150.8	116.5
<b>Trust liabilities</b>	<b>361.1</b>	<b>318.8</b>
Deposits by banks	3.4	2.5
Customer accounts	357.7	316.3

## 63 ▶ Participating Interests

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

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
<b>Banks and near-bank entities</b>				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	8,180 *
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	111,902	18,775
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,515	1,066
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	17,500	2,119 *
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,954	-28
HSBC Transaction Services GmbH***	Düsseldorf	100.0	13,427	-2,164 *
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	194 *
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	15,527 *
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,122	443
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	-4 *
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	290	42
HSBC Global Asset Management (Switzerland) AG****	Zürich	50.0	684	10
<b>Companies with special mandates</b>				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	-5,494 *
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	-316 *
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	31	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	59	4
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	19	-59
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	43	11
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,914*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,627	1,588
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	-113*
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	5	-3

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
<b>Real estate companies</b>				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,288	1,127
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,490	568
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	3,077	2,310
<b>Other companies</b>				
HSBC Trinkaus Consult GmbH*****	Düsseldorf	100.0	5,171	-841
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	31	1
SINO AG ****	Düsseldorf	26.6	6,920	2,709

- \* Net income excluding profit/loss transfer
- \*\* Equities issued by private companies
- \*\*\* Renamed, formerly International Transaction Services GmbH
- \*\*\*\* Consolidated at equity
- \*\*\*\*\* Figures as at 31.12.2008

#### 64 ▶ Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (Handelsgesetzbuch – HGB)

The following subsidiaries intend to make use of the exemption afforded by Section 264 (3) of the German Commercial Code (HGB) and will not publish their financial statements for the year 2008:

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

## 65 ▶ Letter of Comfort

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

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

## 66 ▶ Staff

Annual average	2009	2008
Staff employed abroad	201	180
Staff employed in Germany	2,052	2,013
<b>Total (including trainees)</b>	<b>2,253</b>	<b>2,193</b>
of which:		
female members of staff	1,010	981
male members of staff	1,243	1,212

## 67 ▶ Auditors' Fees

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

in €m	2009	2008
Audits	0.7	0.9
Other audit or valuation services	0.3	0.2
Tax advisory services	0.2	0.0
Other services	0.1	0.2
<b>Other</b>	<b>1.3</b>	<b>1.3</b>

## 68 ▶ Business Relationships with Companies and Persons Defined as Related Parties

In accordance with our “best of both worlds” strategy, we foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall,

the consolidated income statement includes € 120.5 million (2008: € 297.3 million) in income and € 26.4 million (2008: € 54.3 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. The decline in income and expenditure is attributable in particular to lower interest income and expenses. In the 2009 financial year, interest income from other HSBC companies amounted to € 53.7 million (2008: € 233.6 million), while interest expense stood at € 15.1 million (2008: € 42.7 million).

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

in €m	Affiliated companies		Associated companies	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Loans and advances to banks	939.3	2,049.6	0.0	0.0
Loans and advances to customers	0.2	0.5	35.4	30.6
<b>Total</b>	<b>939.5</b>	<b>2,050.1</b>	<b>35.4</b>	<b>30.6</b>

Deposits by banks and customer accounts include the following amounts:

in €m	Affiliated companies		Associated companies	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Deposits by banks	1,783.4	1,638.3	0.0	0.0
Customer accounts	10.3	2.1	10.0	10.6
<b>Total</b>	<b>1,793.7</b>	<b>1,640.4</b>	<b>10.0</b>	<b>10.6</b>

Trading assets/liabilities include the following transactions concluded with affiliated enterprises:

in €m	Securities		Derivatives	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Trading assets	435.2	2,203.7	681.5	1,204.7
Trading liabilities	0.0	0.0	962.6	1,213.1

### Compensation of the Executive Bodies

The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Structure and Management). The following overview shows the remuneration components of the members of the Management Board and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 June 2007, information is disclosed pursuant to section 314 sentence 1 No. 6 (a) sentence 5 of the German Commercial Code (Handelsgesetzbuch – HGB).

At € 2,157.3 thousand, the fixed remuneration of all members of the Management Board was virtually unchanged compared with 2008 (€ 2,157.3 thousand). The variable share of the remuneration is € 5,715 thousand (2008: € 5,572.0 thousand). In addition, the Management Board will receive share options as a so-called long-term incentive, in accordance with a disbursement structure specified in greater detail below. This element of remuneration equates to a fair value of € 4,485.0 thousand for 2009 (2008: € 4,299.0 thousand).

Other compensation in the amount of € 85.6 thousand (2008: € 85.7 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in previous years, the performance-related components for 2009 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share-based compensation for 2007 is paid in three equal amounts in the next three financial years, from 2009 through 2011, in each case after the announcement of the HSGB Group's result for the year. This provision was modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years (in other words in 2012 and 2013) after the commitment.

Provisions totalling € 11.1 million (2008: € 9.8 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 8 June 2010, the compensation of the Supervisory Board will be € 1,122,838.37 (2008: € 1,160,250.00). The members of the Advisory Board received remuneration totalling € 353,100.00 (2008: € 331,300.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 301,791.38 (2008: € 396,991.38). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled € 4.4 million (2008: € 4.5 million). Provisions totalling € 34.5 million (2008: € 41.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

Advances and loans were not granted to members of the Supervisory Board and the Management Board (2008: loans in the amount of € 44,487.66 were granted

to members of the Management Board). Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

## 69 ▶ Share-based Payments

### Breakdown of the Share Option Scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2009	Number of option rights 31.12.2008
SAYE 2004 (5Y)	01.08.2004	3.21	8.50	–	25,358
SAYE 2005 (5Y)	01.08.2005	3.00	8.42	34,175	50,400
SAYE 2006 (3Y/5Y)	01.08.2006	2.60/2.67	9.59	3,502	52,573
SAYE 2007 (3Y/5Y)	01.08.2007	2.90/2.99	9.08	34,797	80,821
SAYE 2008 (1Y3Y/5Y)	01.08.2008	2.49/2.66/2.77	7.55	53,472	281,944
SAYE 2009 (1Y/3Y/5Y)	01.08.2009	1.67/1.59/1.50	3.64	995,110	–
<b>Total</b>				<b>1,121,056</b>	<b>491,096</b>

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on 1 August of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2009 was € 7.15 (1 August 2008: €10.62).

On account of the capital increase conducted by HSBC Holdings plc in April 2009, the exercise prices of all current plans have been adjusted.

## Development of the Share Option Scheme

	Type	Number of option rights	Gewichteter Ausübungspreis in €
Balance as at 01.01.2009	SAYE 2004–2008	491,096	9.37
Granted in the course of the year	SAYE 2009	995,110	3.64
Exercised in the course of the year	SAYE 2004 (5J)/ SAYE 2006 (3J)/ SAYE 2008 (1J)	101,330	8.96
Forfeited in the course of the year	SAYE 2005–2009	263,820	7.80
Balance as at 31.12.2009	SAYE 2005–2009	1,121,056	4.16
of which outstanding option rights		1,116,565	
of which exercisable option rights		4,491	

The staff expenses to be taken into account in the year under report are € 0.8 million (2008: € 0.5 million).

## Breakdown of the Share-Participation Scheme

As in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

in €m	Performance-related remuneration in HSBC shares	
	For financial year 2009	For financial year 2008
Maturing in March 2011	0.0	0.0
Maturing in March 2012	5.7	10.7
Maturing in March 2013	5.7	0.0
<b>Total:</b>	<b>11.4</b>	<b>10.7</b>

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 2.2 million (2008: € 4.7 million). The corresponding liability for share-based payments amounts to € 10.4 million (2008: € 7.3 million).

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

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

## 71 ► Offices held by Members of the Management Board

As at 31 December 2009, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

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

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Supervisory Board	Falke-Bank AG i. L., Düsseldorf
Member of the Supervisory Board	Düsseldorfer Hypothekenbank AG, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Member of the Advisory Board	RWE Supply & Trading GmbH, Essen

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

Carola Gräfin v. Schmettow	
Position	Company
Chairwoman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Chairwoman of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

## 72 ▶ Offices Held by Other Members of Staff

As at 31 December 2009, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw, Poland

Silke Büdinger	
Position	Company
Member of the Board of Directors	Luxemburger Kapitalanlagegesellschaft SA, Wasserbillig, Luxembourg

Thies Clemenz	
Position	Company
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Robert Demohn	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Vice-President of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Gerd Goetz	
Position	Company
Member of the Supervisory Board	SINO AG, Düsseldorf
Member of the Supervisory Board	TICK-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

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

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

Marc Landvatter	
<b>Position</b>	<b>Company</b>
Deputy Chairman of the Supervisory Board	Algopool InvAG, Cologne

Dr. Christiane Lindenschmidt	
<b>Position</b>	<b>Company</b>
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Dr. Manfred v. Oettingen	
<b>Position</b>	<b>Company</b>
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Hans-Joachim Rosteck	
<b>Position</b>	<b>Company</b>
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Heiko Schröder	
<b>Position</b>	<b>Company</b>
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Ulrich W. Schwittay	
<b>Position</b>	<b>Company</b>
Member of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

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

### 73 ▶ Offices Held by Supervisory Board Members

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

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Supervisory Board	Lanxess AG, Leverkusen
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
Member of the Board of Directors	Management Partner GmbH, Stuttgart

Prof. Dr. h. c. Ludwig Georg Braun	
Position	Company
Chairman of the Supervisory Board	Aesculap AG, Tuttlingen
Chairman of the Supervisory Board	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Lucerne, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Lucerne, Switzerland
Member of the Board of Directors	B. Braun Medical Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical S.A., Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical S.A., Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
Member of the Board of Directors	Wilhelm Werhahn KG, Neuss

Dr. Hans Michael Gaul	
Position	Company
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	EWE Aktiengesellschaft, Oldenburg
Member of the Supervisory Board	Siemens AG, Munich
Member of the Supervisory Board	VNG – Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

Wolfgang Haupt	
Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	Pfleiderer AG, Neumarkt

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

Professor Dr. Ulrich Lehner	
Position	Company
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Porsche Automobil Holding SE, Stuttgart
Member of the Supervisory Board	Henkel Management AG, Düsseldorf
Member of the Supervisory Board	ThyssenKrupp AG, Düsseldorf
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Board of Directors	Novartis AG, Basel, Switzerland
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

Hans-Jörg Vetter	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Chairman of the Supervisory Board	LBBW Equity Partners Verwaltungs GmbH, München
Chairman of the Supervisory Board	LBBW Equity Partners GmbH & Co. KG, München
Member of the Supervisory Board	Deutscher Sparkassenverlag GmbH, Stuttgart
Member of the Supervisory Board	Stiftung Schloss Neuhausenberg GmbH, Berlin
Deputy Chairman of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main

## 74 ▶ Publication

The Annual Report will be released for publication on 15 April 2010. The release for publication was approved by the Management Board in its meeting on 12 March 2010.

Düsseldorf, 5 February 2010



Andreas Schmitz



Paul Hagen



Dr. Olaf Huth



Carola Gräfin v. Schmettow

## Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable

assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that the audit provides a sufficiently sound basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB and give, under

the terms of these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 12 February 2010

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner  
Auditor

Signed by Bormann  
Auditor

# Report of the Supervisory Board

## Management

In four meetings conducted by the Management Board, the Supervisory Board received comprehensive reports on the development of business at the Bank, its major subsidiaries and individual business areas during the 2009 financial year.

At each meeting, the reports to the Supervisory Board covered the current results of the financial year to date in comparison with the budget and the results of the corresponding period of the previous year. Financial assets and their valuation as well as the Bank's liquidity situation were presented to the Supervisory Board. The reports on significant events of the 2009 financial year related among other things to the Bank's strategy of further developing the business with corporate clients in the upper SME segment and the implementation of the supervisory authority's new Minimum Requirements for Risk Management (MaRisk) for banks and financial services institutions.

In one meeting, the Supervisory Board focused on the presentation and discussion of the strategic positioning of the Bank, its business policy and principles of corporate planning for the 2010 financial year. The external auditors attended the Supervisory Board meeting in which the financial statements for the previous year were discussed. The Supervisory Board delegated the appointment of the external auditors for the audit of the annual financial statements and of the consolidated accounts to its Audit Committee. The external auditors attended the Committee meeting concerned and gave detailed information on the objectives, methods and key points of emphasis of the 2009 audit plan. As a result of this discussion, the auditors were mandated with the audit of the annual financial statements and of the consolidated accounts based on the agreed appropriate fee structure.

## The Activities of the Committees Formed by the Supervisory Board

In order to deal more efficiently with selected and important management aspects, the Supervisory Board has formed three Committees from its members:

- the Personnel and Nominations Committee, which is responsible among other things for preparing the Supervisory Board's resolutions over matters relating to the Management Board, long-term succession planning together with the Management Board, proposing candidates to the Annual General Meeting for nomination to the Supervisory Board, dealing with conflicts of interest between Management Board or Supervisory Board members and the approval of connected party loans to Bank employees and members of the Supervisory Board;
- the Audit Committee, which is responsible among other things for mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them, accounting and basic risk management issues as well as regularly dealing with the audit findings of the internal audit department and the external auditors;
- the Credit Committee, to which the Supervisory Board has transferred among other things its right of veto in respect of loans which require the approval of the Supervisory Board either in accordance with the Bank's internal rules or pursuant to the German Banking Act (KWG), in particular decisions over connected party loans to companies. Furthermore, the Credit Committee discusses with the Management Board the risk management strategy to be drawn up by the Management Board.

All Committees each comprise three members of the Supervisory Board. The chairman of the Supervisory Board is also chairman only of the Personnel and Nominations Committee in accordance with the recommendation of the Corporate Governance Code.

The Personnel and Nominations Committee as well as the Credit Committee met four times and the Audit Committee seven times, of which three times in the form of a telephone conference, during the 2009 financial year.

In addition to matters relating to the Management Board and the implementation of the new requirements under the Act on the Appropriateness of Management Board Compensation (VorstAG), the Personnel and Nominations Committee was concerned in particular with the issues relating to the deferred payment of variable compensation and the ratio of cash payments to remuneration in shares. It proposed the appointment of Mark McCombe as successor to Supervisory Board member David Hodgkinson, who resigned from his office effective at the end of 2008, and of Hans-Jörg Vetter as successor to Supervisory Board member Dr. Siegfried Jaschinski, who resigned from his office effective from June 2009. The County Court in Düsseldorf complied with the corresponding applications to appoint Mr. McCombe and Mr. Vetter.

Net loan impairment and other credit risk positions was an important topic in the Credit Committee meetings. This included both the general credit risk strategy,



which was also discussed by the Supervisory Board itself, and the discussion of individual exposures. The Credit Sub-committee was also occupied in all meetings with the regularly recurring duties transferred to it by the Supervisory Board.

The Audit Committee received and discussed reports from the internal audit department, from the Compliance Officer and the Anti-Money-Laundering Officer in four meetings and in two meetings also reports from the auditors. In the three telephone conferences it dealt with the drafts of the quarterly reports in each case before publication.

## Corporate Governance

In its meetings in February and November, the Supervisory Board discussed the German Corporate Governance Code and its implementation within the company. The Report on Corporate Governance in 2009, which lists and comments on the individual divergences from the recommendations of the Government Commission on the German Corporate Governance Code, can be found in this Annual Report and, like the Declaration of Conformity pursuant to Section 161 German Stock Corporation Act (AktG), can also be downloaded from the Bank's website.

The Supervisory Board concluded in its efficiency examination that in view of the personal professional qualifications of individual members of its body, it had no concerns as to their suitability. The efficiency of the Supervisory Board was examined and ascertained by means of the self-evaluation recommended by the German Corporate Governance Code.

The information given to the Supervisory Board satisfied all legal requirements and, with regard in particular to the depth of information provided on risks and to the supplementary presentations on new products, services and the activities of selected business areas, exceeded the requirements of the German Stock Corporation Act (AktG). The Supervisory Board therefore concluded that comprehensive information had been provided. The external auditors' report contained no findings which had not previously been reported on and

examined in Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently.

During the 2009 financial year, no conflicts of interest were ascertained between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

### Annual Financial Statements

The Supervisory Board has examined and approved in its meeting of 14 April 2010 the annual financial statements of the Bank for the year ended 31 December 2009, as well as the 2009 Management Report and the proposal of the Management Board for the appropriation of profit. KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, were appointed as external auditors to the Bank and its Group at the Annual General Meeting on 9 June 2009. On 22 September 2009, they were mandated by the Audit Committee of the Supervisory Board to audit the annual financial statements and consolidated accounts. KPMG have audited the Bank's books, its annual accounts and the Management Report for the year ended 31 December 2009 and have given their unqualified audit opinion. The audit report was submitted to the Supervisory Board; no objections were raised.

The consolidated accounts for the year ended 31 December 2009 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (HGB). These accounts were also audited by the external auditors and given an unqualified opinion. The consolidated accounts and the audit report were submitted to the Supervisory Board and approved by it in its meeting of 14 April 2010.

### Dealings with Affiliated Companies

In compliance with Section 312 German Stock Corporation Act (AktG), the Management Board has prepared a report on the Bank's dealings with affiliated companies

for the 2009 financial year. The auditors have issued the following certification of this report under article 313 of the above Law: "Following our statutory examination and evaluation performed in accordance with professional standards, we hereby confirm that (1) the factual content of the report is correct; and (2) the payments made by the Company in the transactions listed in the report were not inappropriately high." The Board examined and noted with approval this report.

### Organisational Changes on the Supervisory Board

In its resolution of 27 March 2009 the County Court in Düsseldorf appointed Mark McCombe as member of the Supervisory Board to succeed David Hodgkinson, who resigned from his office effective December 2009, and in its resolution of 30 September 2009 appointed Hans-Jörg Vetter as member of the Supervisory Board to succeed Dr. Siegfried Jaschinski, who resigned from his office effective June 2009.

Dr. Otto Graf Lambsdorff passed away on 5 December 2009. This position will be filled again within the scope of the scheduled re-election of the entire Supervisory Board at the Annual General Meeting on 8 June 2010.

### Thanks

The Supervisory Board thanks the members of the Management Board for their open and trustworthy cooperation. It is also grateful to the staff whose work in the past year made a contribution to the Bank's success.

Düsseldorf, April 2010

The Supervisory Board



Dr. Sieghardt Rometsch  
Chairman

# Report on Corporate Governance in 2009

## Corporate Governance, an integral part of our corporate culture

The German Corporate Governance Code, as adopted by the Bank in the following Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG), is integral to the corporate culture of HSBC Trinkaus. An open information policy toward our shareholders, clear management structures, transparent financial accounting and the strict avoidance of conflicts of interest are all indispensable conditions for winning and retaining the trust of our investors and business partners on domestic and international financial markets. We have expressed our understanding of values and our behavioural standards in a code of conduct which the Management Board and all employees have undertaken to observe in writing.

The management and representation of the Bank is the responsibility of the Management Board, which consists of four persons, supported by the three members of the Executive Committee responsible for Corporate Banking and International Business, Investment Banking as well as Credit and Operational Risk. The organisational structure of the Bank including the responsibilities of the individual board members for the respective business divisions and support functions are presented in the chapter entitled "The Business Divisions".

The Management Board is overseen by the Supervisory Board elected with it. The Supervisory Board has 15 members, five of whom are chosen from the workforce. The Supervisory Board has formed three committees from its members:

- the Personnel and Nominations Committee, which is responsible among other things for preparing the Supervisory Board's resolutions over matters relating to the Management Board, long-term succession planning together with the Management Board, proposing candidates to the Annual General Meeting for nomination to the Supervisory Board, dealing with conflicts of interests between Management Board or Supervisory Board members and the approval of connected party loans to Bank employees and members of the Supervisory Board;
- the Audit Committee, which is responsible among other things for mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them, accounting and basic risk management issues as well as regularly dealing with the audit findings of the internal audit department and the external auditors;
- the Credit Committee, to which the Supervisory Board has transferred among other things its right of veto in respect of loans which require the approval of the Supervisory Board either in accordance with the Bank's internal rules or pursuant to the German Banking Act (KWG), in particular decisions over connected party loans to companies. Furthermore, the Credit Committee discusses with the Management Board the risk management strategy to be drawn up by the Management Board.

Resolutions of the Supervisory Board and of the Committees are passed with the simple majority of the votes cast, provided no other procedure is required by law. All Supervisory Board Committees comprise three members. The Chairman of the Supervisory Board is also Committee chairman only of the Personnel and Nominations Committee. The members of the Management Board, Supervisory Board and Supervisory Board Committees are listed in the Annual Report in the section entitled "Executive Bodies". The report of the Supervisory Board on its activities during the latest financial year also included in the Annual Report contains more detailed information on the frequency of the meetings of the Supervisory Board and its Committees as well as the concrete issues dealt with in the latest financial year.

## Compensation structures

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The cash component amounts to at least 50 % of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013. Price risks and opportunities arising from the shares allocated in the period up until transfer lie exclusively with the respective Management Board members. In addition, we refer with respect to the compensation system for the Management Board members to the corresponding explanations in the Management Report as well as in Note 68 of the consolidated financial statements of HSBC Trinkaus & Burkhardt AG.

The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published.

The compensation of members of the Supervisory Board – including fees paid for advisory services – is also reported under Note 68 of our consolidated accounts. The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the Deputy Chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a committee not be in office for the full financial year, the compensation is reduced proportionately to the period in office.

The employee compensation system is stipulated by the Management Board. A Compensation Committee was also set up in 2009 which monitors the appropriateness of the compensation systems for the employees. In addition to employees of the Human Resources department, employees of the business-initiating organisational units as well as the control units are also members of the Compensation Committee. The Chairman of the Compensation Committee reports to the Supervisory Board on its work in the first meeting of the year.

### **Reportable dealings in HSBC Trinkaus & Burkhardt shares or in rights to those shares under Section 15 a of the Securities Trading Law (WpHG)**

No dealings in HSBC Trinkaus & Burkhardt shares, or in rights to those shares which require reporting in accordance with Section 15 of the Securities Trading Act or Code no. 6.6 of the Corporate Governance Code, were carried out in 2009 by persons obliged to report such dealings.

### **Day-to-day monitoring**

We have entrusted the Head of the Company Secretariat of our Bank with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2009 financial year no infringements of these rules were identified, in terms of the form, content or spirit of the Corporate Governance Code.

### **Declaration of compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (AktG)**

The Management Board and the Supervisory Board of HSBC Trinkaus & Burkhardt AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 18 June 2009 announced in the official part of the electronic Federal Gazette were complied with, with the following exceptions, and that this code will be complied with in future.

The recommendation of the Government Commission contained in Code no. 2.3.2 to send notification of the convening of the Annual General Meeting together with the convention documents to all domestic and foreign financial service providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled, has not been adopted. Implementing the recommendation in accordance with the law presents considerable practical difficulties in respect of bearer shares and presumably also involves considerable costs. In view of the Company's shareholder struc-

ture, there is no practical need to propose the resolution of approval required for implementation to the Annual General Meeting.

Code no. 5.4.1 is not applied in that it recommends an age limit for Supervisory Board members which would needlessly reduce the Company's flexibility. A fixed age limit would oblige the Company to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, still makes very valuable contributions to the Bank.

The recommendation contained in Code no. 5.4.2, according to which no more than two former Management Board members may sit on the Supervisory Board, is not applied. HSBC Trinkaus has maintained its status as a private bank even after the change of legal form to a German stock corporation, the most fundamental strategic characteristic of which is the long-term and personal nature of the client relationship. In the past, the transition from the executive management of the Bank to the Supervisory Board has also prevented the disruption of client relationships and ensured continuity, for which the former Managing Partners or Management Board members also stand surety as members of the Supervisory Board. The rigid restriction of the number of former Management Board members to two does not do justice to this concept.

Code no. 5.4.3 of the Corporate Governance Code is applied subject to the proviso that individual elections to the Supervisory Board take place not as a rule, but only if an application is made by a shareholder to this effect at the Annual General Meeting at which the elections are to take place. This upholds all protective interests at the same time as preserving the necessary flexibility.

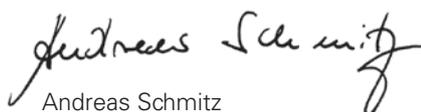
The recommendation of the Government Commission contained in sentence 3 of Code no. 5.4.3, according to which proposals for candidates for the Chairman of the Supervisory Board are to be announced to the shareholders in respect of upcoming Supervisory Board elections, is not applied. Re-elections of the Supervisory Board take place at HSBC Trinkaus for the entire Supervisory Board in each case for which a standard closing date for the election period applies according to the Articles of Association. In the event of complete re-election of the Supervisory Board, it meets after the Annual

General Meeting at which it was elected for a constituent meeting and elects the Chairman from among its members. The announcement of the proposed candidates for the new Supervisory Board by the old Board would be an unjustifiable burden on the new Supervisory Board in its discretionary powers. Even though the newly elected Supervisory Board is not legally bound to the candidates announced by the old Board, any deviation by the new Supervisory Board from these proposals would be associated with negative publicity which could harm the Company.

The recommendation contained in Code no. 5.4.6 on the publication of the individual emoluments of the members of the Supervisory Board, including emoluments for advisory or agency services provided individually, in the Corporate Governance Report have not been complied with. In accordance with the statutory provisions, details of the compensation of members of the Supervisory Board are published in the Notes to the individual financial statements and in Note 68 of the Consolidated Financial Statements of HSBC Trinkaus & Burkhardt AG. The provisions of the Articles of Association relating to the compensation of members of the Supervisory Board are presented in the Corporate Governance Report. As regards payments for personal services provided, such as advisory services, this would encroach extensively upon the personal rights of the Supervisory Board member with no absolute necessity.

Düsseldorf, February 2010

For the  
Management Board:



Andreas Schmitz  
– Chairman –

The recommendation of the Government Commission contained in Code no. 6.3 is applied with the clarifying references that the equal treatment of shareholders, financial analysts and similar addressees in respect of information is limited to price-relevant information. We do not define expressions of opinion by members of executive bodies in the press and other media, or background discussions with financial analysts and rating agencies as “new facts” within the meaning of Code no 6.3 in the interest of the clear determination of the extent of the information communicated.

Only such information which is relevant for the HSBC Trinkaus & Burkhardt AG share price is regarded as information on the enterprise which the company discloses within the meaning of Code no. 6.8. The above references relating to Code no. 6.3 apply analogously.

By way of deviation from Code no. 7.1.2, HSBC Trinkaus & Burkhardt AG adheres to the statutory deadlines in the interest of greater timing flexibility concerning the production of its consolidated financial statements and interim reports.

HSBC Trinkaus & Burkhardt AG complies with the recommendation contained in Code no. 7.1.4 insofar as statutory publication thresholds are reached. By making reference to the statutory publication thresholds, misinterpretations are avoided.

For the  
Supervisory Board:



Dr. Sieghardt Rometsch  
– Chairman –

# ▶ Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes

a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, 5 February 2010



Andreas Schmitz



Paul Hagen



Dr. Olaf Huth



Carola Gräfin v. Schmettow



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### **Interpretation and evaluation of statements about the future**

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. The information is based on the consolidated figures at the close of the 2009 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our Consolidated Statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included. In addition, this publication contains statements of our expectations concerning our Group's progress during 2010. Such statements about the future can be found in particular in the Letter from the Management Board to our shareholders in the 'Outlook for 2010' section, in the section on our company's strategy and also in many other places throughout this Annual Report. These statements about the future

are based on our expectations of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans. All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the financial year 2010 becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.



## Key Dates

### **15 April 2010**

Results Press Conference

### **12 May 2010**

Interim Report as at 31 March 2010

### **8 June 2010**

Annual General Meeting

### **12 August 2010**

Press conference

Interim Report as at 30 June 2010

### **11 November 2010**

Interim Report as at 30 September 2010



## Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2009	2008	2007	2006	2005*
<b>Total assets</b>	<b>18,728.6</b>	<b>22,205.7</b>	<b>21,066.9</b>	<b>18,676.4</b>	<b>15,948.1</b>
<b>Assets</b>					
Cash reserve	177.0	139.5	332.3	436.3	798.6
Loans and advances to banks	2,429.4	2,979.7	4,117.0	4,440.1	4,561.9
Loans and advances to customers	2,687.5	4,082.6	4,272.9	3,173.1	2,554.0
Net loan impairment and other credit risk provisions	-42.9	-21.4	-16.2	-17.0	-26.1
Trading assets	10,005.7	12,482.6	10,436.8	9,044.0	6,470.6
Financial assets	3,126.1	2,118.8	1,568.2	1,437.6	1,472.2
Interests in associates	10.6	10.1	15.2	1.5	0.0
Property, plant and equipment	83.3	81.1	196.3	80.4	78.0
Intangible assets	44.1	56.0	12.3	9.3	7.9
Taxation recoverable	13.0	17.5	54.8	2.5	1.8
current	13.0	13.0	54.8	2.5	1.4
deferred	0.0	4.5	0.0	0.0	0.4
Other assets	194.8	259.2	77.3	68.6	29.2
<b>Liabilities</b>					
Deposits by banks	2,697.6	2,709.1	2,532.7	1,495.7	1,424.7
Customer accounts	9,062.1	11,592.8	10,283.2	8,861.4	7,139.6
Certificated liabilities	10.0	10.0	10.0	29.8	34.6
Trading liabilities	5,196.7	6,152.9	6,488.4	6,683.6	5,883.9
Provisions	152.2	117.4	112.4	113.0	103.5
Taxation**	67.7	85.1	106.0	62.0	128.1
current**	61.1	81.5	48.4	25.7	80.7
deferred	6.6	3.6	57.6	36.3	47.4
Other liabilities	95.3	108.2	106.8	105.4	91.0
Subordinated capital	384.4	458.7	458.7	440.6	308.1
Shareholders' equity**	1,062.5	955.0	968.7	884.9	834.6
Minority interests	0.1	16.5	0.0	0.0	0.0
<b>Income statement</b>					
Net interest income	143.3	139.5	110.0	88.6	73.7
Net loan impairment and other credit risk provisions	22.4	4.5	-3.5	-5.2	-9.7
Share of profit in associates	0.6	0.5	6.4	2.5	0.9
Net fee income	346.2	347.6	318.1	281.8	264.4
Net trading income	117.9	98.2	100.1	104.0	74.3
Administrative expenses**	400.8	384.2	334.0	298.6	287.6
Other operating income/expenses	11.6	3.5	1.3	-1.0	0.8
Operating profit	196.4	200.6	205.4	182.5	136.2
Income from financial assets	-24.0	-50.0	1.9	6.5	49.1
Income from derivatives in the bank book	5.1	-11.1	0.0	0.0	0.0
Other net income	-13.8	-1.3	-0.1	0.5	8.2
Profit before taxes	163.7	138.2	207.2	189.5	193.5
Tax expenses**	54.5	48.6	63.2	74.9	76.1
Net profit for the year	109.2	89.6	144.0	114.6	117.4

\* Up to and including 2005 inflows and outflows of liquidity from repo and securities lending transactions are reported under loans and advances to banks or customers/deposits by banks.  
\*\* The prior-year figures were adjusted retrospectively in 2008 pursuant to IAS 8 as a result of the first-time application of IFRIC 11, Group and Treasury Share Transactions.

