Annual Report 2016

HSBC Trinkaus & Burkhardt Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2016	2015	Change in %
Results in €m			
Operating revenues	774.8	721.3	7.4
Net loan impairment and other credit risk provisions	4.4	0.2	> 100.0
Administrative expenses	567.9	530.4	7.1
Pre-tax profit	229.9	217.4	5.7
Tax expenses	74.4	65.3	13.9
Net profit	155.5	152.1	2.2
Balance sheet figures in €m			
Total assets	23,084.8	21,670.5	6.5
Shareholders' equity	2,240.0	1,949.8	14.9
Ratios			
Cost efficiency ratio of usual business activity in %	70.8	70.9	–
Return on equity before tax in %	11.8	11.7	–
Net fee income in % of operating revenues	61.3	61.2	–
Funds under management and administration in €bn	238.9	215.3	11.0
Employees	2,832	2,793	1.4
Share information			
Number of shares issued in million	34.1	34.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	4.54	4.46	1.8
Share price as at 31.12 in €	63.72	72.90	– 12.6
Market capitalisation in €m	2,172.9	2,485.9	– 12.6
Regulatory ratios*			
Tier 1 in €m	1,916.8	1,634.8	17.2
Regulatory capital in €m	2,241.9	2,001.9	12.0
Risk-weighted assets in €m	15,613.7	15,871.5	– 1.6
Tier 1 ratio in %	12.3	10.3	–
Regulatory capital ratio in %	14.4	12.6	–

* Following confirmation of the balance sheet

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HSBC Trinkaus & Burkhardt Group

Date of issue:
April 2017

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Contents

Executive and Supervisory Bodies

Dear Shareholders,

The 2016 financial year was a good year for the Bank overall. We gained further market shares and were able to increase our profit in an exceptionally difficult market environment. Furthermore, we successfully adjusted our growth strategy and adapted it to the changing framework conditions.

As in the previous years, our diversified business model with its clear client orientation paid off. Our success is guaranteed by the unique combination of our locally strong and highly professional commercial bank and the international service capacity of the HSBC Group. This network is our stand-alone feature. It covers 90 % of the global economy. No other western bank is as strongly represented in the Asian growth region as HSBC. Added to this is the capital strength of the HSBC Group, as a result of which HSBC Trinkaus & Burkhardt, as part of the Group, still has the highest Fitch rating of a private commercial bank in Germany of 'AA- (Stable)'. From this position of strength and because we have adjusted the growth strategy, we were able to overcome the negative influences in 2016: the extremely low interest rate environment, the below-average growth of the world economy and global trade, the Brexit shock as well as the unrelenting increase in regulatory requirements.

The HSBC Trinkaus & Burkhardt Group improved pre-tax profit by 5.7 % to €229.9million in the 2016 financial year. Net profit for the year of €155.5million was 2.2 % higher than the prior-year figure. The return on equity before tax was again above the 10 % mark at 11.8 % (2015: 11.7 %).

After investing strongly in the corporate banking business in the wake of the growth initiative from 2013 to 2015 – with around 350 new employees, four new branches and the considerable expansion of our credit book and product range – we succeeded in switching from quantitative to qualitative growth in 2016. The focus is now no longer only on gaining internationally operating companies as clients, but also on intensifying the many new and also long-standing client relationships at the same time. We want to become more relevant for our clients as a core bank – be it with more products, in more countries, or with solutions for demanding challenges, and as a strategic partner. As the implementation of the Global Standards to fight financial crime is accompanied by costs, which require higher minimum revenues per client, the profitability of the client relationships has therefore also come into focus.

Our growth strategy since 2013 has indeed been a success: while the market recorded only moderate single-digit growth in the period from 2013 to 2016, we expanded our lending business by more than 20 % per annum; our revenue growth in the MME business was also above the market average in this period with annual growth of more than 10 %. At the same time, we were able to strengthen our client base and our market position significantly.

The Bank also strongly expanded its relevance in the event business and in respect of capital market financing in 2016, for example supporting Bayer in financing the acquisition of Monsanto. This success speaks for the service capacity of the HSBC network and the capital strength of the HSBC Group.

Net fee income, which traditionally accounts for the lion's share of the Bank's operating result, was up by a respectable 7.6 % to €474.7million, again showing that we are succeeding in generating qualitative growth. Net interest income improved by 4.8 % to €211.4million due to significantly higher income in the client lending business although the burdening factors – the negative interest on our surplus liquidity as well as the further decline in interest income from securities in the liquidity reserve – increased.

Global Banking & Markets again made the greatest contribution and saw the strongest improvement of the segments. High loan commission for financing very large company acquisitions and export transactions in close cooperation with the HSBC Group contributed to this in particular. In the MME business, the success of the growth strategy is reflected in the volume-based increase in interest income in the lending business and in the high fee income in the foreign exchange business. On the other hand, the Private Banking & Asset Management segment, which was hardest hit by the unfavourable interest and investment market environment, was not able to repeat its prior-year result.

After increasing Tier 1 capital in December 2016 in the form of a hybrid bond as so-called Additional Tier 1 capital (AT1), the Bank has a far broader capital base. With the €235million in new capital, we are well equipped with a view to further growth, but also growing regulatory requirements. The regulatory capital ratio therefore increased in the latest financial year, from 12.6 % to 14.4 %, while the Tier 1 capital ratio rose by 2.0 percentage points to 12.3 %. In the light of the good results, the Management Board and Supervisory Board will propose to the Annual General Meeting the payment of an unchanged dividend of €2.50 per share.

We are convinced that the Bank is well positioned in the current market environment. We will continue along the path of earnings-oriented growth we have embarked upon. We will acquire new clients, establish ourselves further as core bank with our existing clients and rely on the network of the HSBC Group. We are investing in efficient and simplified processes. This gives us not only more time for our clients, but also helps to reduce costs. We are focusing on revenues growing faster again than costs.

Our employees have made the decisive contribution to our success: our growth and sustainable further development is only possible thanks to their commitment and motivation combined with their experience and know-how. We owe our employees our recognition and our thanks. As we know that our employees are the foundation upon which the Bank is based, we attach major importance to the development of our staff – be it through training and advanced training measures or international placements.

Yours faithfully,

The Management Board

Carola Gräfin v. Schmettow **Dr Rudolf Apenbrink** **Paul Hagen** **Norbert Reis**

The Management Board

01 Norbert Reis
Responsible for the Corporate & Institutional Banking division

02 Carola Gräfin v. Schmettow
Chairwoman of the Management Board responsible for the Global Markets and Global Research divisions

03 Dr Rudolf Apenbrink
Responsible for the Global Private Banking and Asset Management divisions

04 Paul Hagen
Responsible for the Finance, Risk Management and Operations divisions


03
02
04

The Management Board

01 Carola Gräfin v. Schmettow
Chairwoman of the Management Board responsible for the Global Markets and Global Research divisions

02 Dr Rudolf Apenbrink
Responsible for the Global Private Banking and Asset Management divisions

03 Paul Hagen
Responsible for the Finance, Risk Management and Operations divisions

04 Norbert Reis
Responsible for the Corporate & Institutional Banking division


01


02


03


04

Executive Committee

01 Martin Hörstel
Responsible for the Global Banking business in the Corporate & Institutional Banking division

02 Christian Kolb
Responsible for the business with MMEs in the Corporate & Institutional Banking division

03 Dr Jan Wilmanns
Responsible for the Institutional and Corporate Clients business in the Global Markets division


01


02


03

HSBC Trinkaus & Burkhardt AG's positioning among the German banks is unique: we are part of one of the world's largest banking groups and at the same time firmly rooted in Germany with a tradition going back more than 230 years. A good 2,800 employees work for HSBC in Germany in 12 locations – including the head office in Düsseldorf. Our broad offer of financial services is geared towards corporate clients (internationally oriented MMEs, large corporate clients and multinationals), institutional and public-sector clients in Global Banking & Markets and high net worth private clients. As the German unit of the HSBC Group, we are still the highest rated private commercial bank in Germany with a 'AA– (Stable)' Fitch rating.

We offer our clients the best of both worlds in our pursuit to be the 'Leading International Bank' in Germany. As part of our growth strategy launched more than three years ago, we have gained access to new client groups, expanded existing client relationships and extended our product and service portfolio in all divisions. The number of employees and branches has also been increased significantly. With the successful implementation of the new growth strategy, we are able to continue along our expansion path from a position of strength. The goal remains to become the core bank for even more clients. We can recommend our international expertise, thanks to the connectivity of the HSBC Group, to companies, investors and private investors alike.

The HSBC Group is an internationally networked, client-oriented commercial bank and operates in more than 70 countries and regions with around 235,000 employees world-wide. Established more than 150 years ago in Hong Kong & Shanghai to promote trade between Asia and Europe, HSBC focuses its business activity today on the world's fast-growing markets, such as Asia and Latin America. HSBC operates over 170 branches in more than 50 cities on the Chinese mainland – more than every other foreign bank in China. With our comprehensive network we offer our clients regional proximity for competent local servicing and at the same time international reach to enable them to enter the growth markets of the future.

Our aim is to grow sustainably. We have undertaken to maintain the highest standards with respect to regulatory and statutory provisions in the HSBC Group. The 'Global Standards' are among the most effective controls world-wide for avoiding financial crime. By introducing them, HSBC has provided its employees with a programme that enables them to assess risks comprehensively and make the right decisions in keeping with our values and business principles. These are based on reliability, openness to new ideas and other cultures as well as solidarity with clients, society, regulatory authorities and colleagues. Our reputation and the trust that is placed in us are expressed in our client satisfaction, which has won several awards, and in our consistent client relationships. For us, the focus is on our clients. That is what we stand for – now and in the future.

Supervisory Board

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

Voting members:

- **Andreas Schmitz,** Düsseldorf
  Chairman
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Birgit Hasenbeck*,** Düsseldorf
  Deputy Chairwoman
  Bank employee

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

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

- **Stefan Fuchs*,** Düsseldorf
  Employee,
  HSBC Transaction Services GmbH

- **Dr Hans Michael Gaul,** Düsseldorf

- **Alan Keir**
  former Chief Executive Officer,
  HSBC Bank plc, London

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

- **Friedrich Merz**
  Lawyer, Düsseldorf

- **Ralf Rochus*,** Essen
  Bank employee

- **Jochen Schumacher*,** Krefeld
  Bank employee

- **Dr Eric Strutz,** Berg

- **Carsten Thiem*,** Düsseldorf
  Bank employee

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

- **Dr Oliver Wendt*,** Cologne
  Bank employee

Supervisory Board Committees

Remuneration Committee

- **Andreas Schmitz,** Düsseldorf
  Chairman
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

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

- **Stefan Fuchs*,** Düsseldorf
  Employee,
  HSBC Transaction Services GmbH

- **Birgit Hasenbeck*,** Düsseldorf
  Bank employee

- **Alan Keir**
  former Chief Executive Officer,
  HSBC Bank plc, London

Audit Committee

- **Dr Eric Strutz,** Berg
  Chairman

- **Dr Hans Michael Gaul,** Düsseldorf

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

- **Ralf Rochus*,** Essen
  Bank employee

Deputy members:

- **Friedrich Merz,** Düsseldorf
  Lawyer

- **Andreas Schmitz,** Düsseldorf
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Dr Oliver Wendt*,** Cologne
  Bank employee

Risk Committee

- **Dr Eric Strutz,** Berg
  Chairman

- **Dr Hans Michael Gaul,** Düsseldorf

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

- **Ralf Rochus*,** Essen
  Bank employee

Deputy members:

- **Friedrich Merz,** Düsseldorf
  Lawyer

- **Andreas Schmitz,** Düsseldorf
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Dr Oliver Wendt*,** Cologne
  Bank employee

Nomination Committee

- **Andreas Schmitz,** Düsseldorf
  Chairman
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

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

- **Alan Keir**
  former Chief Executive Officer,
  HSBC Bank plc, London

Mediation Committee

- **Andreas Schmitz,** Düsseldorf
  Chairman
  former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Birgit Hasenbeck*,** Düsseldorf
  Bank employee

- **Alan Keir**
  former Chief Executive Officer,
  HSBC Bank plc, London

As at 31 December 2016

* elected by the employees

Advisory Board

Friedrich Merz,
Chairman
Attorney

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

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

Heinrich Deichmann
Chairman & Chief Executive Officer,
Deichmann SE

Walter P. J. Droege
Founder and CEO,
Droege International Group AG

Dr Thomas Enders
Chief Executive Officer,
AIRBUS

Harald Epple
Member of the Management Board,
Gothaer Versicherungsbank VVaG

Heinrich Johann Essing
Managing Director,
HEC Vermögensverwaltung GmbH

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

Bernd Franken
Managing Director,
Nordrheinische Ärzteversorgung
Einrichtung der Ärztekammer Nordrhein

Robert Friedmann
Chairman of the Central Managing Board,
Würth-Group

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

Stephan Gemkow
Chairman of the Management Board,
Franz Haniel & Cie. GmbH

Wolfgang Haupt
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Dr Marc Heußinger
Chairman of the Board of Administration,
ALDI-North Group

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

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

Dr Karl-Ludwig Kley
Chairman of the Supervisory Board,
E.ON SE

Professor Dr Renate Köcher
Executive Director,
Institut für Demoskopie Allensbach

Franz-Josef Kortüm
Vice Chairman of the Supervisory Board,
Webasto SE

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

Ulrich Leitermann
Chairman of the Management Board,
SIGNAL IDUNA Gruppe

Thomas Löhning
Managing Director,
Versorgungswerk der Architektenkammer NRW

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

Udo van Meeteren

Ludwig Merckle
Managing Director,
Merckle Group

Dr Markus Michalke
Managing Director,
MIC Capital / Alveus Beteiligungen

Hildegard Müller
Chief Operating Officer Grid & Infrastructure,
innogy SE

Karsten Müller-Uthoff (until Dec. 2016)
former Managing Director,
Ärzteversorgung, Niedersachsen

Marcus Nagel
CEO Germany,
Chairman of the Managing Boards,
Zurich Gruppe Deutschland

Dr Axel Nawrath
Chief Executive Officer of the
L-Bank

Werner Nicoll
Member of the Management Board,
ARAG SE

Hartmut Retzlaff
STADA Arzneimittel AG

Dr Sieghardt Rometsch
former Spokesman of the Managing Partner
HSBC Trinkaus & Burkhardt KGaA

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

Klaus Schäfer (until May 2016)
Member of the Management Board,
Uniper AG

Hans-Jörg Schreiweis (until Sept. 2016)
Member of the Management Board,
Nürnberger Versicherungsgruppe

Dr Ulrich Schröder
Chief Executive Officer,
KfW Bankengruppe

Dr Botho von Schwarzkopf
Shareholder of
Pfeifer & Langen Industrie- und Handels-KG

Professor Dr Klaus Schweinsberg
Centre for Strategy and Higher Leadership

Stephan Seifert (since Oct. 2016)
Chairman of the Executive Board,
Körber AG

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

Helmut Späth
Deputy Chairman of the Management Board,
Versicherungskammer Bayern

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

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

Werner Wenning
Chairman of the Supervisory Board,
Bayer AG

Ute Wolf
Chief Financial Officer,
Evonik Industries AG

Group Management Report

The Foundations of the Group

The Group business model

Structure and management

The HSBC Trinkaus & Burkhardt Group currently comprises a group of 13 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG

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

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Finally, companies acting as the managing partners of closed-end property funds and of private equity funds also form part of the Group. The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out as a rule by the relevant Supervisory Board, Board of Directors and Advisory Board. Notwithstanding their legal independent status, all companies are managed within the framework of an overall strategy.

The business divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas. The Management Board members are assisted by Mr Martin Hörstel, Mr Christian Kolb and Dr Jan Wilmanns as members of the Executive Committee. The assignment of responsibilities in the following organisational chart applies not only to the parent company and its branches, but also to the subsidiaries.

After successfully heading up and further developing the Commercial Banking business for three years, Mr Stephen Price decided to resign as Management Board member with effect from 31 May and take on new challenges outside the Bank. The Management Board has therefore been reduced from five to four members. Dr Christiane Lindenschmidt took on a new challenge in the HSBC Group in June 2016 as Chief Administration Officer in the Group COO Office in London.

So far the Bank has distinguished in its corporate banking business between the two segments Commercial Banking, the business with MMEs, and Global Banking Corporates, the business with international large corporates. With effect from 1 June 2016, both segments have been merged under one roof and will therefore take even better account in future of the special features of the German corporate banking market with its strong and internationally oriented companies. The new 'Corporate and Institutional Banking' division is headed up by Norbert Reis as member of the Management Board. The new Executive Committee members Christian Kolb for Commercial Banking and Martin Hörstel for Global Corporates support Norbert Reis in his extended responsibility.

Management Board

Carola Gräfin v. Schmettow
Chairwoman of the Management Board

- Global Markets
  Carola Gräfin v. Schmettow
  Deputy: **Dr Jan Wilmanns**
  Executive Committee
- Global Research
  Carola Gräfin v. Schmettow
- Functions A
  Carola Gräfin v. Schmettow
  - Legal
  - Compliance Functions
  - Internal Audit
  - Human Resources
  - Communications
  - Marketing
  - Strategy & Planning
  - CEO Office
- Internationale Kapitalanlagegesellschaft mbH (HSBC INKA)

Dr Rudolf Apenbrink
Management Board

- Global Private Banking
  Dr Rudolf Apenbrink
- Asset Management
  Dr Rudolf Apenbrink
- HSBC Global Asset Management (Deutschland) GmbH (AMDE)

Norbert Reis
Management Board

- Corporate & Institutional Banking
  Norbert Reis
  - Global Corporates
    Martin Hörstel
    Executive Committee
  - Global Financial Institutions Group
  - Commercial Banking
    Christian Kolb
    Executive Committee
  - Financing & Advisory Products
  - Global Liquidity & Cash Management
  - Global Trade & Receivable Finance

Paul Hagen
Management Board

- Functions B
  Paul Hagen
  - Risk
  - Finance
- HSBC Securities Services
- HSBC Operations, Services & Technology
- Global Banking & Markets Operations
- HSBC Transaction Services GmbH (HTNG)

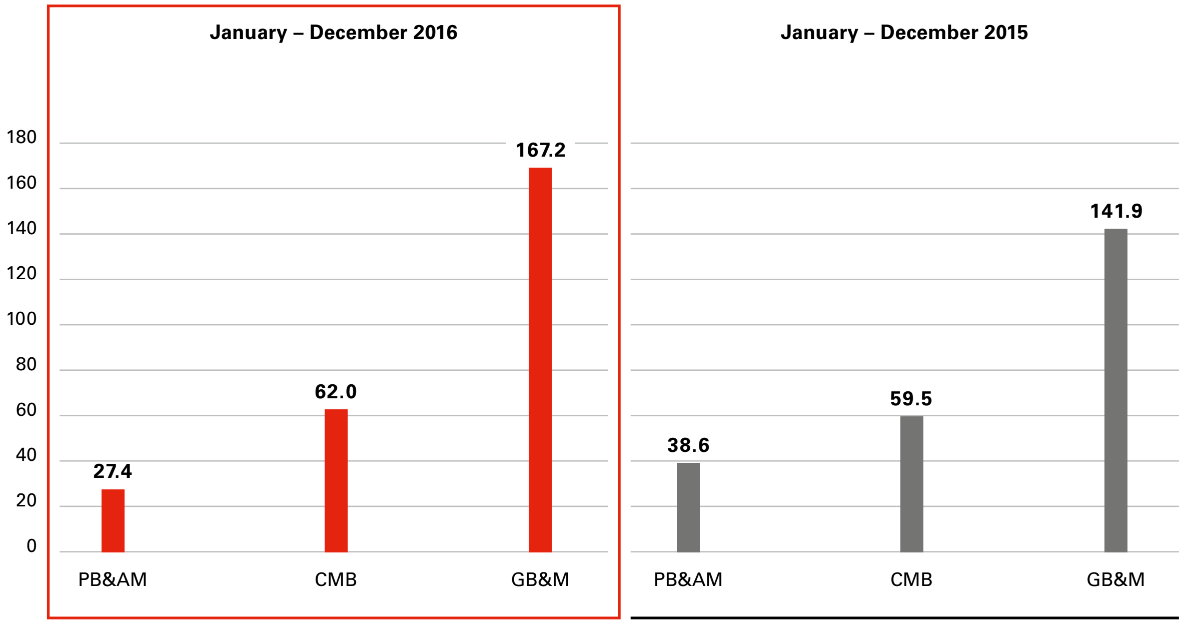
The Private Banking (GBP), Commercial Banking (CMB) and Global Banking & Markets (GB&M) divisions as well as Asset Management (AM) correspond to the global organisational structure of the HSBC Group.

Private Banking and Asset Management, which have been reported separately to date, have been amalgamated to form the Private Banking & Asset Management segment in line with the new control system within HSBC Germany. The new segment includes the sum of the results of the Private Banking and Asset Management business for full 2016 and adjusted retrospectively for the first time, while the presentation of the other segments Commercial Banking and Global Banking and Markets has not changed.

The costs for the technology and service departments are mainly apportioned as unit costs to the customer and trading divisions. The cost centres are applied to the operating divisions, so that their business results are based on full costs.

Contributions to profit

in €m



Overview of our strategy

Business strategy

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

We want to use this position of strength to meet the difficult, changing general setting in the banking market: Firstly, the extremely low interest rate environment in historical terms is putting considerable pressure on banks in respect of their operating earnings power. Secondly, the regulatory control of the banking sector continues to grow, partly with a considerable impact on business models in the banking sector. We are broadening our business model geared towards the securities and foreign exchange business with a very strong market position in the business with institutional clients by focusing more strongly on the corporate banking business. Thirdly, we will permanently have to deal with only moderate economic growth in Germany. Growth of only 1.6 % and 1.7 % p. a. is now assumed for 2016 and 2017. Fourthly, the growth rates in global trading are slowing down and the possible isolation of individual economic regions, for example as a result of Brexit and the new government in the US, could put further pressure on international trade. And fifthly, foreign suppliers have been showing more interest in the German market again for some time, leading to a significant increase in competition.

We therefore developed our growth strategy further in the latest 2016 financial year and adjusted it to the changed environment outlined above. Under the title 'Germany 2020', we have developed a growth plan for the years from 2016 to 2020. Its target figures and strategic convictions are basically in line with the growth initiative, namely expanding the corporate banking business with internationally operating companies. Our aim is to strengthen our still strong position in the business with institutional clients, which is a main pillar of the Bank's entire client-oriented business model, even further. The growth initiative launched in 2013 is regarded as implemented in the meantime.

Our basic strategic convictions remain:

We want to be the leading international bank in Germany for our German MMEs and large corporates as well as Trusted Advisor for all our clients. We want to establish ourselves as core bank with our clients. Within the HSBC Group we want to maintain our strong position in allocating business to other units of the Group and also want to take on a leading position in the allocation of business between the business divisions. We support our client segments with efficient and simplified processes, helping us not only to be able to spend more time working with the client, but also reducing costs.

A new tone has been set in the wake of 'Germany 2020' and specifically defined in five agenda points:

1. Greater emphasis on qualitative growth
2. Stronger focus on returns
3. Improvement of the product offer
4. Expansion of cross-border cooperation and cooperation across business lines
5. Streamlining of the processes / Investments in IT

After the volume-driven growth phase to gain market shares, the Bank is now focusing on qualitative growth and a return-oriented strategy. The focus is on redeeming the investment in new and existing client relationships and, after distributing credit-oriented products, now placing commission-driven products with clients to a greater extent. Once the Bank has established itself with the client as the core bank, it expects to expand the wallet, in other words the share of the client's entire budget for banking products. The profitability of client relationships is the focal point. This needs to be the case also because the implementation of the Global Standards to fight financial crime is accompanied by costs that require higher minimum revenues per customer. In order to support the client relationship teams in cross-selling, the product range is being expanded further and improved.

The Global Private Banking and Asset Management divisions are important pillars of the overall strategy. They support the business model, for example by providing stable funding, and require only a limited equity commitment to generate returns.

The Bank aims to further improve both local and also Group-wide revenues through the close cooperation of the divisions. We want to further expand our position as cross-border champion within the HSBC Group, in other words as a unit that transfers significant business to other units of the HSBC Group, in order to also increase the profitability of the client relationship on global level. As the focus is and will remain on the global view of the business, we will also be guided by a global in addition to a local profitability perspective.

The processes will be optimised in order to relieve clients of the growing administrative tasks and reduce costs at the same time. Further steps towards rationalisation and increasing efficiency will be taken by standardising processes and offshoring to the HSBC service centre in Krakow, also by investing further in the IT infrastructure.

An important sub-project under 'Germany 2020' is the expansion of the Corporate and Institutional Banking (CIB) business: the German corporate banking market is characterised by a strong MME segment and a large number of companies with substantial revenues. German MMEs also show a high degree of internationality and are not seldom global market leader in their sector. According to the system to date, they have been serviced by Commercial Banking (CMB), but are more similar in terms of their demand patterns to the Global Banking clients. As part of 'Germany 2020', the Bank therefore decided to bring the Commercial Banking, Global Corporates and Global Financial Institutions Group client segments as well as the Financing & Advisory Products (FAP, formerly Capital Finance), Global Liquidity & Cash Management (GLCM) and Global Trade & Receivable Finance (GTRF) product segments closer together under one management, and therefore better address the special features of the German corporate client market. The resulting 'Corporate and Institutional Banking' (CIB) segment enables a a uniform presence and improved access for internationally oriented companies to our products and the services of the HSBC Group worldwide. It is aimed at creating additional impetus for growth in the corporate banking business. At the same time, the Bank can use existing synergies and reduce complexity.

'Germany 2020' therefore follows on seamlessly from the successful growth initiative launched in 2013. While the market recorded only moderate single-digit growth in the period from 2013 to 2016, the Bank expanded the lending business by more than 20 %; our revenue growth was also above the market average in this period. At the same time, we were able to strengthen our client base significantly and make HSBC more attractive as a principal banking connection through an extended product offer. Correspondingly, we were able to significantly improve our market position. We were even able to take on a top position in the market in the shortest space of time in the product segments Leveraged Acquisition Finance and Mid Market Financial Sponsors newly created on local level.

The long-standing and trusting business relationships with our customers as well as their positive feedback on our growth strategy strengthen our conviction that we are the right track. This gives us the confidence to continue along the path we have embarked upon. Our success remains based on:

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

In the spirit of our more than 230-year tradition, we remain committed to our values: future needs tradition.

Our corporate values as the basis for the success of the business strategy

The implementation of our business strategy can only succeed if we actively put our common values into practice. In keeping with the values of the HSBC Group, we have introduced the following values:

'Courageous integrity' as an overriding corporate value, which includes trust, honesty, responsibility and sense of duty

The principle of courageous integrity means having the courage to make decisions without being afraid and without waiting for specific instructions, but also without compromising the ethical principles and integrity for which the company has already stood since it was founded. This principle encourages employees to take responsibility for their own actions and make decisions without hiding behind rankings and rules. It also gives them the confidence to stand up for what is important and protect the Bank from what is wrong in everyday life.

Behavioural standards 'reliability, openness and solidarity'

The HSBC Group has stipulated behavioural standards with the three central HSBC values – reliability, openness and solidarity – which we have adopted. Their individual meaning is as follows:

- Reliability stands for strengthening the employees' feeling of personal responsibility, for standing up for what they believe to be important and right, as well as fulfilling the obligations entered into.

- As part of an international group, openness towards different ideas and cultures is an important value for successful cooperation. Furthermore, it encourages the Bank's employees to create a culture of open communication of risk in which listening carefully, appreciating challenges as well as learning from mistakes are decisive.

- Solidarity is expressed in the close links to clients and society, but also in mutual support among employees. Important business relationships can be expanded through cross-border cooperation, which means that good results and innovations can be achieved taking different viewpoints into consideration.

Global Standards and Conduct Programme

By introducing the 'Global Standards', the HSBC Group has set itself the goal of establishing the most effective controls for avoiding financial crime. In addition to fighting financial crime through the Global Standards programme, HSBC has set up a Conduct Programme in which it and its employees are committed to securing fair results for its clients and working towards the regularity and transparency of the financial markets. We are implementing this compliance agenda at HSBC Germany with firm conviction and extensive commitment.

The control system

1. Explanation of the control system

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

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

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

2. Specification of the ratios

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

- Cost efficiency ratio
- Return on equity
- Liquidity coverage ratio
- Tier 1 ratio
- Regulatory capital ratio

3. Explanation of the calculation of the ratios

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

Return on equity
The return on equity is calculated by putting pre-tax profit in relation to average shareholders' equity over the last five quarters (including the average consolidated profit available for distribution and excluding the average valuation reserves). As the Bank's IFRS capital has also contained an additional capital component with the Additional Tier 1 capital since 2016 that is not attributable to the shareholders, both pre-tax profit and average shareholders' equity will be adjusted for the effects on the ratio resulting from the Additional Tier 1 capital.

Liquidity coverage ratio
The liquidity coverage ratio puts highly liquid assets in relation to the overall net outflow of funds in the next 30 calendar days.

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

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

Economic Report

General economic and sector-related framework

Macroeconomic developments

The first half of 2016 was characterised by economic concerns, with the Chinese economy in particular posing a problem for the financial markets at the beginning of the year. But a slowdown in growth quickly led to discussions in the US as well over whether the key interest rate hike by the US central bank at the end of 2015 was not premature after all. The weak global demand pushed the oil price down to new lows in the first quarter, strengthening existing disinflationary tendencies. Overall, though, fears regarding lasting cyclical weakness proved to be unfounded on global level. As monetary and fiscal policy succeeded in stabilising the growth in China, GDP growth of 6.7 % can be assumed for 2016 followed by 6.5 % in 2017. Additional tailwind for the economy is being provided by the significant depreciation of the renminbi over the course of 2016. The US economy also gained momentum again in the second half of the year, but growth is likely to have come to only 1.6 % for the full year due to the weak first half. The US central bank used the cyclical upturn in the second half of the year and the improved growth prospects for 2017 to raise interest rates by a further 25 basis points in December and held out the prospect of further hikes, generating tailwind for the US dollar. However, there are signs of only moderate tightening of fiscal policy in the coming quarters.

The later part of the year was dominated above all by political topics, with Donald Trump winning the presidential election campaign. Starting with the second half of 2017, a more expansive fiscal policy is likely to provide additional impetus for the US economy, which is expected to grow by 2.3 % in 2017. Events were also dominated by a political development in Great Britain, with the British people voting to leave the EU. Although this has not impacted the British economy so far, we are expecting the growth momentum to slow down if the British government starts the exit process based on Article 50 of the EU Treaty in early 2017, leading to economic growth of only 1.2 % in 2017 after 2.0 % last year. In Italy, the population voted in a referendum against a constitutional reform and therefore against the restructuring of the country, which has already had a weak economy for years.

Given the political uncertainties, the Eurozone did well overall in 2016 and is likely to have grown by 1.7 %, driven by the Spanish and German economy. There are signs of a slight slowdown in expansion to 1.2 % in the Eurozone for 2017. Although the global economy is likely to grow at a slightly faster pace, investment activity should remain moderate with a view to the continuing political uncertainties. Important elections are on the agenda for example in the Netherlands, France and Germany, and it is quite likely that early elections will be held in Italy as well after the failed referendum. It is also to be assumed that private consumption will lose momentum. The oil price rose significantly over the course of 2016 and was given an additional boost at the end of the year by OPEC's decision to cut production volume. Against this backdrop, inflation is likely to increase substantially in 2017, from 0.4 % last year to 2.1 %, weakening consumers' buying power.

Higher commodities prices reduced the risk of deflation in the Eurozone again, prompting the ECB to lower the deposit rate further into the negative zone to –0.4 %, increase the volume of its monthly bond buying programme from €60billion to €80billion and announce a number of long-running tender transactions (TLTRO) in March 2016. In December the ECB announced that it was continuing its buying programme until the end of 2017 at least, but reducing the buying volume to €60billion per month from April. As long as the central bank continues with its bond purchases, no increase in key interest rates is to be expected. This should ultimately ensure that the increase in the yield on ten-year Bundesanleihen at the end of 2016 does not continue and that interest rates will remain on a low level in 2017 as well.

Despite historically favourable financing conditions and good capacity utilisation in the meantime, the investment restraint exercised by the companies was again a key factor preventing the stronger expansion of the German economy in 2016. Only a moderate increase in the willingness to invest is to be assumed in 2017 as well, which will be supported by slightly stronger export activity. The service sector, which should also be mainly responsible for employment in Germany growing further, will remain the driving force behind the growth. But there are also plans to increase jobs significantly in the construction industry owing to the extremely good order situation. Unemployment, which has fallen to a record low, continues to support private consumption, which is benefiting in addition from a reduction in income tax at the beginning of 2017. Owing to the far weaker influx of refugees, fiscal policy will no longer make quite such a strong contribution to economic growth as in the previous year. Overall, the Federal budget should get by without taking up new debt in 2017 as well. The expansion of gross domestic product in Germany is likely to remain above the long-term growth path in 2017 and slow down only marginally compared to last year from a seasonally-adjusted 1.8 % to 1.6 %.

Developments in the banking sector

The low level of interest rates, weak credit demand, growing competition and the increase in regulatory controls remain important challenges for the German banking landscape:

- Since March 2016 the key interest rate in 19 Eurozone countries has fallen to a new record low of 0.0 %; the deposit rate for banks has already been negative since June 2014 (since March 2016 –0.4 %). This had direct consequences for the profitability of German banks in 2016, and will impact to the earnings potential of the financial industry in 2017 as well. No increase in interest rates is to be expected in 2017.

- At around €1,332billion, the volume of loans to companies and self-employed professionals was 1.7 % higher than in the previous year in the first six months of 2016. This reflects the weaker propensity to invest on the part of the companies on the one hand, but also strong internal financing on the other. Listed companies used their access to the capital markets, and the volume of outstanding corporate bonds rose by around 3 % from December 2015 to over €265billion in June. Overall, the financing terms for companies remain favourable, especially as the ECB has also been buying corporate bonds since June 2016.

- Great Britain's decision to leave the European Union brings considerable uncertainty with it, and represents a risk for German exports. 'Brexit' could also be an opportunity for Germany as a financial centre if international banks decide to shift business activities to Germany. However, this will depend very strongly on the outcome of the negotiations between the EU and Great Britain.

- Growing competition remains a challenge and leads to greater pressure on profitability. Foreign banks in particular have identified Germany as an important economic location with strong export power and a healthy corporate client landscape, and want to expand here. However, greater competition is also coming from FinTech companies, which often have a very efficient cost structure and can therefore offer their customers more favourable conditions. In addition, alternative providers are also likely to be benefiting from the continuing loss of confidence in the banking sector. Ongoing reports of official investigations and the financial risks and reputational risks associated with them remain a burden for the financial industry.

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

- The market environment will remain demanding and challenging for German banks next year as well. We are expecting stagnating revenues on the whole. Each and every market participant must react to this environment with a solid strategic orientation, a clearly defined business model, streamlining of the balance sheet, effective restructuring and cost reductions as well as investments in efficient IT processes. Overall, though, the German banking industry appears to be comparatively stable, as also proven by the last ECB stress test.

The HSBC Trinkaus & Burkhardt Group in the current environment

We are convinced that HSBC Trinkaus & Burkhardt is well positioned in the current market environment. In this setting, we can use our position of strength to continue along our expansion path. We have already gone into the 'Germany 2020' strategy launched in May 2016, which represents a further development of the 2013 growth initiative successfully implemented and adjusts the goals set at that time to the current general economic setting, in detail in the section 'Overview of our strategy'.

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

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

- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our clients. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing them. Our trading activities serve primarily to support the client segments and provide a comprehensive product offer. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.

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

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

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

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

- We must offer our clients unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing and professional advice.

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

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

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

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

Our successful positioning on the market as well as the successes in the wake of the implementation of our 'Germany 2020' strategy confirm our impression that we are on the right track.

Business performance and situation

Profitability

The HSBC Trinkaus & Burkhardt Group (HSBC Trinkaus & Burkhardt) generated pre-tax profit of €229.9million in the 2016 financial year (2015 adjusted: €217.4million). This represents an increase of €12.5million, or 5.7 %, in line with the prior-year forecast. This convincing result, also compared to the German banking market, demonstrates the successful implementation of the Bank's strategic goals. Net profit for the year of €155.5million was 2.2 %, or €3.4million, higher than the 2015 figure of €152.1million, representing a record result in the Bank's history.

Our business performance was influenced substantially last year by the further consistent implementation of the growth strategy. There was an extremely favourable trend in the business with clients, driven by the extension of existing client relationships as well as business with new clients, signalling clear market share gains. The low interest rate environment continues to prove burdensome firstly, on account of negative deposit margins and secondly, due to the falling average returns in our liquidity portfolio.

HSBC Germany again showed that the diversified business model based on continuity and clear client orientation pays off.

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

Net interest income of €211.4million (2015 adjusted: €201.7million) was up by €9.7million, or 4.8 %, overall. In accordance with the change in its internal controls, the Bank is reporting interest from money market transactions (Balance Sheet Management) in net interest income and no longer in net trading income from this financial year on. The prior-year figures were adjusted accordingly. The adjustment of the prior-year figures led to an increase in net interest income of €24.2million as well as a corresponding reduction in net trading income.

This increase was attributable primarily to the significant improvement in interest income in the client lending business on account of higher volumes. On the other hand, interest income from financial assets declined again. Furthermore, margins in the lending business, which are too low, continue to put pressure on net interest income; as there is no possibility of passing negative interest rates on to its clients, the Bank's strong deposit base is leading to interest losses.

Net interest income from deposit-taking operations again declined significantly over the course of the year. On higher volumes on average, margins deteriorated further over the course of the year due to the central bank interest rate policy, leading to a negative interest margin in the Bank's deposit-taking business for the financial year. We see the still high level of deposits by our clients as evidence of the confidence they place in the Bank. Like other banks, we too have been burdening clients with negative interest rates only in agreed individual cases to begin with, above all institutional clients. After the ECB interest rate cut in March 2016, our competitors charged fees or negative interest rates on large deposits by corporate clients to a greater extent. As we recorded strong inflows as a result, we have also been charging our corporate clients negative interest rates since mid-2016. Our ruling depends on the individual case and is geared towards the structure and variety of the client relationship.

Net interest income in the lending business again improved compared to the previous year based exclusively on the increase in business volumes. Margins in the lending business declined further compared to the previous year with the same credit ratings.

In contrast, net interest income from financial assets continued to fall. In general, credit spreads for both issuers with a sound credit standing, such as the German federal states, and for corporate bonds of good to average quality narrowed further in 2016. Bullet bonds with a comparable risk profile could therefore only be replaced by bonds with significantly lower coupons in the 2016 market environment, maintaining our strict rules for the quality of the investments.

After net loan impairment and other credit risk provisions of €0.2million in the previous year, this item came to €4.4million in the 2016 financial year. Individually assessed impairments featured new provisions of €12.7million as well as reversals of €8.3million. Recoveries on loans and advances previously written off amounted to income of €0.3million. Collectively assessed impairments required a net addition of €0.3million. Our conservative orientation is unchanged in relation to the assessment of default risks. The risk provisioning requirements therefore turned out to be higher, as forecast, compared to the very low prior-year figure. Although the economy in Germany remains very robust, a small number of problem cases can already lead to significant individually assessed impairments, as shown in the forecast reports.

Net fee income increased again by a remarkable 7.6 %, or €33.5million, to €474.7million (2015: €441.2million), demonstrating the strong expansion of the Bank's business with clients and the associated market share gains.

Net fee income from transactions in securities and financial instruments came to €116.3million (2015: €117.2million). After the strong increase the previous year, we managed to maintain net fee income almost on the prior-year level in the 2016 financial year. Our institutional clients made use of alternative investments on a level comparable to the previous year during the financial year.

Net fee income from the securities portfolio business, which includes above all net fee income from our fund management business and custodian bank operations, increased slightly again compared to the good prior-year figure to €106.8million (2015: €105.0million).

At €75.2million, net fee income from Asset Management and wealth management was slightly lower compared to the previous year (2015: €77.7million) in a competitive environment.

The result generated in the fee-based business with foreign exchange was up by €4.6million to €68.4million (2015: €63.8million). This shows the still major need on the part of our clients to hedge against exchange rate fluctuations in the currently volatile foreign exchange market environment and the growing number of institutional and corporate customers looking for tailor-made solutions, such as currency overlay management. The close cooperation between Private Banking, the MME corporate banking business and Global Markets is increasingly paying off.

Net fee income in the lending business increased by an outstanding €23.5 million to €47.5million (2015: €24.0million). We generated very strong income in connection with our involvement in several refinancing structuring projects with very large volumes in the financial year. Fee income in the lending business with our clients also developed favourably, though.

Net fee income from capital financing increased by €5.6 million to €29.7million (2015: €24.1million). The favourable increase is attributable essentially to origination fees in the debt capital markets business. We were again successful in supporting our clients in the business with corporate financing transactions using promissory note loans in 2016.

Net fee income from domestic and foreign payments and from the documentary business rose slightly compared to the previous year, by €1.5million to €24.8million (2015: €23.3million).

Net trading income increased by €3.6million to €78.7million (2015 adjusted: €75.1million). In accordance with the change in its internal controls, the Bank is reporting interest from money market transactions (Balance Sheet Management) in net interest income and no longer in net trading income from this financial year on. The adjustment of the prior-year figures led to a reduction in net trading income from bonds, money market transactions and interest rate derivatives the previous year of €24.2million, from €30.2million to €6.0million. After the extraordinary market turbulence on the bond markets in the second quarter of the previous year, net income from trading with bonds, money market transactions and interest rate derivatives improved considerably again in 2016, by €6.0million to €27.1million, after adjusting the prior-year figure for the interest from money market transactions.

Net income from trading with equities and equity derivatives declined significantly to €38.3million compared to €49.1million the previous year. In addition to the slump on the stock markets at the beginning of 2016, Brexit and the election campaign in the US in particular have led to lasting uncertainty among investors, which is also reflected in the lower business volumes in respect of investment certificates. This effect could not be compensated by greater interest in trading products owing to only short-term volatility peaks in a market otherwise moving mostly sideways.

Given the still major need on the part of our clients to hedge against exchange rate fluctuations in the currently volatile foreign exchange market environment, net income from foreign exchange trading increased by €2.2million to €9.9million. Net income from trading with derivatives held in the banking book declined substantially, by €9.4million to €2.3million. The prior-year result benefited considerably from the major weakening of the euro exchange rate versus the US dollar.

Administrative expenses rose by €37.5million, or 7.1 %, from €530.4million to €567.9million.

The increase in the number of employees in the wake of the growth strategy is reflected alongside the general salary increases in the €19.3million increase in staff expenses to €355.4million. Furthermore, the adjustment of the growth plan ('Germany 2020' strategy) and the focusing on qualitative growth associated with it led to higher non-recurring staff expenses compared to the previous year.

Other administrative expenses rose by €21.3million to €195.6million. This increase is due among other things to the high non-recurring expenses for the accelerated implementation of the Global Standards of the HSBC Group, which will help to fight financial crime more effectively and establish, or further expand, a strong, lasting relationship to the clients.

Depreciation of property, plant and equipment and of intangible assets of €16.9million is €3.1million lower compared to the previous year.

The cost efficiency ratio therefore stands at 70.8 % (2015 adjusted: 70.9 %) and is in line with the prior-year forecast at just above 70 %.

Income from financial assets increased by €9.9million to €24.9million (2015 adjusted: €15.0million). Gains on the disposal of securities and write-ups on securities were set against very low write-downs on investments in the real estate sector and impairments on securities.

Other net operating income came to €12.3million (2015: €14.8million) and largely includes rental income from our real estate. This item also includes expenses resulting from the depreciation of a property. Other net income amounted to €0.2 million after €0.1million the previous year.

Tax expenses increased versus the prior-year figure by €9.1million to €74.4million in the 2016 financial year. The increase is the result above all of the high income from the sale of fund units, which is subject to a reduced tax rate, included the previous year. This gives a tax rate of 32.4 % after 30.0 % the previous year.

Please see the Note 'Customer Groups' in the notes to the consolidated financial statements for the development of the results of the individual segments.

The asset situation

As at the balance sheet date, total assets amount to €23.1billion after €21.7billion the previous year, an increase of €1.4billion.

Customer deposits remain our most important source of refinancing, accounting for €13.6billion (2015: €12.9billion), or 59.0 %, of total equity and liabilities on the balance sheet date. We regard the high level of customer deposits as a clear commitment on the part of the Bank's clients to its solid business policy and high credit standing. As part of the HSBC Group, HSBC Trinkaus & Burkhardt is still the highest rated private commercial bank in Germany with a 'AA- (Stable)' Fitch rating.

The increase in deposits by banks of €1.0billion to €1.8billion is associated among other things with the increase in the cash reserve from €0.7billion to €1.1billion and is balance sheet date related. The Bank also participated in the central bank's new targeted longer-term financing operations (TLTROs-II) in the amount of €0.8billion. Further details can be found in the section on the financial position.

Trading liabilities of €4.5billion were around €0.6billion lower compared to 31 December 2015. Certificates and promissory note loans were responsible for around €0.3billion of the decline on the one hand and negative market values in the derivatives business for around €0.3billion on the other.

Subordinated capital declined from €458.2million the previous year to €437.7million owing to promissory note loans falling due.

The increase in certificated liabilities from €10.0million the previous year to €45.4million is due to the issue of a registered bond.

Shareholders' equity is up by 14.9 % to €2,240.0million, which is significantly higher than the level of €1,949.8million as at 31 December 2015. The increase is essentially the result of the Bank raising Additional Tier 1 capital (AT1) in the form of a bearer bond with an unlimited maturity for the total amount of €235.0million. Further details can be found in the section on the financial position. The return on equity remained above the 10 % mark, in line with the prior-year forecast, at 11.8 % (2015: 11.7 %).

Share capital amounted to €91.4million, as in the previous year. The capital reserve was unchanged at €720.9million. The dividend for the previous year of €85.2million was distributed in the second quarter. The valuation reserve for financial instruments declined from €120.0million to €115.6million. There was also a decline in the valuation reserve for the remeasurement of the net pension obligation of €12.3million to € –97.4million due to the reduction in market interest rates.

Loans and advances to banks of €1.3billion were slightly higher by €0.1billion compared to the previous year.

The further increase in loans and advances to customers, from €7.8billion to €8.5billion, reflects the significant contribution being made by our growth strategy with additional market share gains in the corporate banking business. We succeeded in particular in further expanding the business with syndicated loans and promissory note loans as well as export financing. We see further growth potential as firstly, the credit lines granted to our clients are still extremely underused and secondly, we will be able to further expand the corporate banking business, also thanks to our improved capitalisation, within the scope of our 'Germany 2020' growth strategy.

Trading assets increased by €0.7billion to €6.6billion (2015: €5.9billion). Bonds, which are mostly exchange traded and also eligible, account for a slightly lower, but still high share. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. The significant increase in tradable receivables of €0.9billion is essentially the result of extended trading with promissory note loans. Both equities and other variable-interest securities of €1.2billion (2015: €1.2billion) and the positive market values of our derivatives of €2.1billion (2015: €2.1billion) remained on the prior-year level.

Financial assets of €5.4billion (2015: €5.7billion) were down by €0.3billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion. We have a limited exposure in the peripheral states in the Eurozone in both the trading portfolio and financial assets.

The financial position

(a) Capital

One of the central functions of the banking business is consciously entering into risk, its targeted transformation and active management. The assumption of risk is limited by the supervisory authorities in order to guarantee the stability of the banking system. The institution's and the Group's equity capital is material for the extent of the permissible risk. The definition and calculation of equity capital is a central component of the supervisory regulations. Supervisory risk limitation has an effect on the one hand on the risk positions as the total of risk-weighted assets (RWAs), the market risk equivalent as well as operational risks, which have to be backed by capital at predefined minimum rates (Pillar 1). On the other, the maximum credit limit up to which an individual borrower or a borrower unit may be granted a loan is determined from the extent of the capital.

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

HSBC Trinkaus & Burkhardt AG transferred €22.0 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 8 June 2016. At this year's Annual General Meeting on 14 June 2017, we will propose the payment of an unchanged dividend of €2.50 per share. Correspondingly, we will be able to make a further allocation to retained earnings of €69.3million from profit available for distribution according to the German Commercial Code (HGB).

HSBC Trinkaus & Burkhardt AG raised Additional Tier 1 capital (AT1) in December 2016 in the form of a bearer bond with an unlimited maturity for the total amount of €235.0million, therefore giving it greater scope to continue its growth strategy launched in summer 2013. The bond cannot be called by the issuer for the first five years and features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.65 %. HSBC Bank plc, London, which holds 80.7 % of HSBC Trinkaus & Burkhardt AG's share capital, fully subscribed and acquired the securities in the course of a private placement. In accordance with IFRS it constitutes shareholders' equity.

The HSBC Trinkaus & Burkhardt Group had equity capital of €2,241.9million as at 31 December 2016 (2015: €2,001.9million). Tier 1 capital accounted for €1,916.8million (2015: €1,634.8million) and Tier 2 capital for €325.1million (2015: €367.1million). Tier 1 capital consists of Common Equity Tier 1 Capital of €1.681.8million and Additional Tier 1 Capital of €235.0million

(b) Capital requirements

The Group's risk positions as at 31 December 2016 stood at €15,613.7million (31 December 2015: €15,871.5million), of which risk-weighted assets accounted for €13,190.8million (31 December 2015: €12,970.1million), the market risk equivalent for €1,063.4million (31 December 2015: €1,519.2million) and operational risk for €1,359.5million (31 December 2015: €1.382.2million). This gives a Tier 1 capital ratio of 12.3 % (31 December 2015: 10.3 %) and a regulatory capital ratio of 14.4 % (31 December 2015: 12.6 %). The increase in the capital ratios is essentially the result of the Bank raising Additional Tier 1 capital. Corresponding reference was also made to the expected increase in the capital requirements and the possible impact on the capital ratios in the forecast report last year.

Thanks to the further capital measure as well as the planned reinvestment of net profit available for distribution, the regulatory capital requirements are still not a restrictive factor with respect to the continuation of the growth path we have embarked upon.

Since the Single Supervisory Mechanism (SSM) came into force in November 2013, there has been greater harmonisation of supervisory practice in Europe. Supervision is carried out directly or indirectly by the ECB in close cooperation with the national supervisory authorities. HSBC Germany is still subject primarily to national banking supervision and underwent a Supervisory Review and Evaluation Process (SREP) in 2016. As the result of this process, BaFin notified the Bank in November 2016 that it had to maintain an equity ratio of at least 10.5 %.

The leverage ratio measures the ratio between regulatory capital and the unweighted asset items on and off the balance sheet (including derivatives). The leverage ratio is to be reported to the supervisory authorities as an observation and published by the institutions. A binding minimum ratio is expected to be stipulated in 2019 / 2020 at the earliest. The international provisions of the Basel Capital Accord provide for its introduction on 1 January 2018. As at 31 December 2016, the Bank's regulatory leverage ratio stood at 6.3 %.

(c) Liquidity

Irrespective of the extent of the capital, liquidity is the decisive factor for banks to be able fulfil all of their contractual obligations in times of crisis as well. Owing to the very high level of customer deposits together with a considerable liquidity cushion on the assets side, the Bank is still in a very comfortable liquidity position, which also significantly exceeds the new regulatory requirements.

The Governing Council of the ECB announced a further series of longer-term financing operations (TLTFO II) in the spring, intended to strengthen the transmission of monetary policy by further incentivising bank lending. The legal act relating to TLTRO II was adopted in April 2016. A total of four TLTRO II operations will be conducted at a quarterly frequency starting in June 2016, each with a maturity of four years and a voluntary early repayment option. After borrowing only €10million in TLTRO I, the Bank borrowed a total of €450million in the first TLTRO II operation and a total of €300million in the second TLTRO II operation to finance the targeted further growth in lending volumes.

The liquidity coverage requirements (Liquidity Coverage Ratio, LCR) standard throughout Europe have been binding since October 2015. The compliance rate required will be raised successively, from 60 % in October 2015, then to 70 % in 2016, to reach 100 % in 2018. As at 31 December 2016, the Liquidity Coverage Ratio stood at 112.3 % (2015: 105.6 %). The regulatory liquidity ratio in accordance with the Liquidity Ordinance (LiqV) stood at 2.50 on 31 December 2016 (2015: 2.75).

On 23 November 2016 the European Commission presented drafts for the Capital Requirements Regulation 2 (CRR2) and the Capital Requirements Directive 5 (CRD5). The European version of the Net Stable Funding Ratio (NSFR) was therefore also introduced among other things. The NSFR is defined as the ratio of the available amount of stable funding to the required amount of stable funding. The book values of the liquidity positions, which are multiplied by regulatory weighting factors, serve as a reference value. The NSFR must be higher than 100 % and will be binding in 2019 / 2020 at the earliest. The international provisions of the Basel Capital Accord provide for its introduction on 1 January 2018.

Please see the section on Liquidity Risk in the Risk Report for details of the management of liquidity risk.

Supplementary Report

Material events occurring after the balance sheet date

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

Outlook and Opportunities

The global growth momentum gained in the second half of last year is likely to continue this year as well, although there should be a slight slowdown in the expansion in the Eurozone, due not least to diverse political uncertainties: various elections in the Netherlands, France and Germany, and most likely also in Italy, as well as the start of the exit process from the EU in Great Britain are likely to contribute to the growth momentum slowing down. Furthermore, inflation is likely to increase this year due to higher commodities prices and lead to a reduction in consumer buying power. Despite the still historically favourable financing terms on account of the ECB continuing with its expansionary monetary policy, only a moderate increase in the willingness to invest can be assumed in Germany. Although the global economy is likely to grow at a slightly faster pace, investment activity should remain moderate here as well with a view to the continuing political uncertainties.

Our base scenario is growth of around 1.6 % for the Federal Republic of Germany for 2017. This can be regarded as a solid economic trend. Good employment prospects, rising wages and only little incentive to save owing to the ECB's zero/negative interest rate policy are creating a consumer-friendly environment. The German domestic economy above all should again turn out to be the supporting pillar for German economic activity in 2017. However, if there is a significant deviation from this trend, we are prepared to respond promptly to it and protect the Bank from undesired risks, even if it should then not be possible to realise our income forecast as a result.

While the overall economic environment should be solid and supportive for the Bank owing to its business focus on Germany, other framework conditions will put considerable pressure on the earnings situation in 2017. These include the extremely low level of money and capital market interest rates. Owing to the surplus liquidity provided by the ECB, the Bank's solid deposit base has lost a great deal of its importance and, as we are not charging our clients negative deposit interest, our net interest income is declining due to negative margins in our deposit-taking business. The client-induced deposit surplus, which has been one of the strengths of our balance sheet so far, remains a negative factor due to the ECB measures. At the same time, further high-yield bonds in the Bank's liquidity portfolio are maturing which can only be replaced by bonds offering comparable credit quality with far lower or even negative yields. Both factors are putting significant pressure on net interest income.

Even if our clients should use credit lines to a greater extent, we are not expecting the Bank's liquidity situation to deteriorate over the course of the year. The clear overfulfilment of the Liquidity Coverage Ratio requirements is likely to be reduced slightly. The Bank has very significant scope for refinancing with the ECB including the Targeted Longer-Term Refinancing Operations (TLTRO).

Changes to the external statutory and regulatory framework will put pressure on the Bank's earnings situation and lead to significantly higher administrative expenses at the same time. These include, for example, the changes based on MiFiD 2, Common Reporting Standards (successor to FATCA), as well as the further increase in reporting requirements.

The Bank's capital base was strengthened significantly in December 2016 by it raising Additional Tier 1 capital for the first time. Our earnings strength also means that we are able to reinvest net profit available for distribution alongside paying an unchanged dividend. Thanks to the successful 2016 financial year, in which we met our revenue forecasts and further expanded our market shares in the target groups – as planned – we have created a stable foundation for the years ahead.

Against the backdrop of the further growth planned as well as the further increase in regulatory requirements, we are assuming declining capital ratios. This is because we can report extremely high capital ratios as a result of the capital increase in December 2016 and have created scope for establishing further risk-weighted assets as a result.

In 2017, the Bank will further expand its market position in particular in Corporate Banking in line with the growth strategy, which focuses on the business with MME corporate clients, but also provides for the further expansion of the Institutional Banking and Global Markets business. The change in the competitive situation in the lending business is making the client lending business far less attractive with the combination of longer loan periods, less stringent loan terms and lower margins perceived in the market. We will therefore manage the growth in lending very strongly according to value-oriented standards and demand sufficiently large additional business if the margins are not adequate for appropriate risk provisioning and returns on capital. Should these requirements not be met, we will refrain from implementing ambitious growth targets in the MME client business in order to maintain the quality of the business and manage the deployment of capital in an economically sensible way.

By increasing capital in December 2016, we have made preparations to cover the further increase in capital requirements if the ambitious targets of the growth strategy are implemented as planned.

We are expecting a single-digit percentage increase in net revenues in our base scenario for 2017. The activities in Global Markets, Private Banking and Asset Management are also expected to be the growth drivers alongside Corporate & Institutional Banking. Our forecast therefore again envisages far stronger growth than the market and clear market share gains in the German banking market.

The up-front expenses for the growth strategy are the result of a significant increase in the number of employees for the business with MME corporate clients and the corresponding extension of the product offers, such as payments (global liquidity and cash management) and global trade and receivable finance. But the Bank's service divisions and the central functions such as HR, Risk and Financing have also been expanded correspondingly. In addition, there are a large number of projects to strengthen IT support of the business and set up the necessary capacities. This led to a significant increase in administrative expenses in 2016. As the rate of increase in costs is expected to be below 5 % in 2017, revenues should rise at a faster pace than expenses. The number of new appointments will be limited in 2017. We will also outsource further tasks to the global services centres of the HSBC Group to realise cost savings. We expect the Bank's cost efficiency ratio to remain at just above 70 % due to the pressure on margins and the highly burdensome interest income situation as well as the large number of projects.

An expansion strategy means higher risks, but also greater opportunities. This applies above all for the expansion of the lending portfolio with SME corporate clients. However, the expected positive trend in the Germany economy in the European context makes these risks appear to be acceptable. We expect the risk provisioning requirements to turn out to be far higher than in 2016, in which risk-related costs were only very low. The expansion of the target ratings in the corporate banking business will also involve stronger capital backing alongside higher risk provisioning requirements. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments, which could put pressure on the result contrary to what was planned.

We are expecting a slight increase in pre-tax profit overall. We plan to maintain the return on equity before tax above the 10 % mark – a comparatively high figure in Germany. The significant expansion of the business with the necessary investments has been realised without a sharp decline in earnings so far. This should continue this year as well if there are no surprise loan defaults; the interest, foreign exchange and equity markets are not subjected to any shocks; and if the external influences on the Bank's client-oriented business model remain controllable.

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

We are moderately optimistic in our base scenario for 2017 and are happy to rise to the challenges presented by the German market to meet the goals we have set ourselves for business growth. The implementation of our plans should enable us to pay our shareholders an appropriate dividend and further strengthen the Bank's capitalisation by retaining profits in the years ahead as well.

Risk Report

Risk management in the HSBC Trinkaus & Burkhardt Group

Definition

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

Principles of risk management policy

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

In accordance with these risk principles we are ready to actively enter into market and counterparty credit risk. We want to minimise operational risk if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out. Avoiding risks to our reputation and compliance risk 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. Strategic risk, which can arise among other things from changes in laws and regulations, the competitive situation, macroeconomic data as well as market conditions, is taken into consideration when determining our business strategy as part of the planning process.

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

The banking crisis has confirmed that the old principle of 'liquidity before profitability' is still a highly topical guiding principle. Questions relating to the Bank's liquidity position are still of the greatest priority for us, even if there is a more than abundant supply of liquidity in the market for the years ahead due to the EBC measures. We have maintained our liquidity reserve and paid attention when investing the funds accruing in the money and capital market to keeping liquidity on a high level. We are aware that we work with money deposited by our investors who entrust us with their funds. The new banking supervisory liquidity provisions confirm our cautious stance, even though the strategic impetus coming from monetary policy and banking regulation is working in different directions.

The second central challenge facing our risk management is managing counterparty credit risk. Events during the euro debt crisis including the developments in Greece and Cyprus have clearly shown that loan losses cannot be ruled out in Eurozone states either. As a result of the ECB's expansionary monetary policy, the risk situation eased temporarily in the period under report. Whether this easing is sustainable will only be seen in the years ahead as the ECB buying government bonds to a greater extent has just made refinancing easier and cheaper, and the problem of the high debt levels of individual EU member states has not been solved.

Germany was able to realise the expected economic growth in 2016, despite unforeseen events, such as the Brexit vote. Owing to the relatively favourable economic situation compared to the Eurozone in particular, the Bank's credit risk situation remained comfortable. As the growth prospects in Germany for 2017 are moderately positive, we are confidently continuing with our 'Germany 2020' growth strategy. This is based on the redefinition of the Bank's appetite for risk, which takes the significant growth in our capital base and our earnings strength into consideration.

The volatility on the equity, foreign exchange and interest rate markets did not present the Bank with major challenges in 2016. The market risk limits were utilised to a relatively minor extent. Interest rate risk management was adapted to the current yield curve, partly with negative interest rates, by means of an approved model adjustment. There were no backtesting anomalies throughout the Bank.

Risk culture

Risk culture is of particular importance at banks, as shown by the events that led to the financial crisis. Risk culture is an integral part of corporate culture and is to be taken in by each individual employee and practised in day-to-day business to secure that the Bank acts sustainably in the interests of all stakeholders.

It is decisive for this that the actions of each individual employee are in keeping with the uniform ethical standards practised in the company. HSBC has stipulated such behavioural standards with the three central HSBC values – reliability, openness and solidarity. Their individual meaning is as follows:

Reliability stands for strengthening the employees' feeling of personal responsibility, for standing up for what they believe to be important and right, as well as fulfilling the obligations entered into.

As part of an international group, openness towards different ideas and cultures is an important value for successful cooperation. Furthermore, it encourages the Bank's employees to create a culture of open communication of risk in which listening carefully, appreciating challenges as well as learning from mistakes are decisive.

Solidarity is expressed in the close links to clients and society, but also in mutual support among employees. Important business relationships can be expanded through cross-border cooperation, which means that good results and innovations can be achieved taking different viewpoints into consideration.

The principle of courageous integrity is the key element of the HSBC values. Courageous integrity means having the courage to make decisions without being afraid and without waiting for specific instructions, but also without compromising the ethical principles and integrity for which the company HSBC in Germany has already stood for more than 230 years. This principle encourages employees to take responsibility for their own actions and make decisions without hiding behind rankings and rules. It also gives them the confidence to stand up for what is important and protect themselves from what is wrong in everyday life.

By introducing the 'Global Standards', the HSBC Group has set itself the goal of establishing the most effective controls for avoiding financial crime. The Bank went to major lengths to take an important step forward in this respect in the 2016 financial year by further strengthening the compliance culture. In addition to fighting financial crime, HSBC has set up a Conduct Programme in which it and its employees are committed to securing fair results for its clients and working towards the regularity and transparency of the financial markets. We are implementing this programme with firm conviction.

Risk management – organisational structure

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

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

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

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

This is why short routes to the management, a clear awareness on all hierarchical levels of the risks entered into, a culture of fast and open communication of risk and the constant further development of risk management are decisive. The awareness of values and the risk culture are strengthened by advanced training measures in which the Management Board and Executive Board members actively engage to promote a responsible corporate culture.

Internal Capital Adequacy Assessment Process

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

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

The quarterly analysis and continuous monitoring of the risk-bearing capacity is based on an income statement/ balance sheet approach and also covers types of risk that are not included in the regulatory requirements for the capital adequacy of banks (e.g. liquidity or pension risk). The economic capital requirement is determined and the risk cover funds deduced for two different scenarios, the going-concern and liquidation scenario, each of which is completed by associated stress assessments. As part of the overall bank stress assessment in the going-concern scenario, the Bank assumes an unusual, but conceivable negative trend in the global economy (e.g. a global economic slump with a substantial decline in world trade or deterioration in the financial position of the public sector) and simulates the effects on certain quantifiable risks. Separate stress scenarios are defined and the effects analysed for quantifiable risks not covered by the scenario. In addition to these regular stress tests, the Bank carries out an inverse stress test once a year. This type of stress testing is related to the identification of results that could seriously threaten the Bank's own existence; in other words, it could potentially erode the aggregate risk cover of the going concern scenario. We identified the abolition of the federal financial equalisation system as a possible inverse stress scenario, which increases the risk premiums of the federal states, among other things.

The theoretical methods and models for quantifying the economic capital requirement are at varying stages of development in the different types of risk.

In line with a conservative approach, diversification effects are still not taken into consideration at the Bank at present.

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

in €m	31.12.2016	31.12.2015
Risk cover funds	**2,338.6**	**2,070.4**
minus regulatory capital requirement	–1,424.7	–1,041.2
Unallocated risk cover funds	**913.9**	**1,029.2**
Risks		
Credit risk	158.7	146.2
Market risk (incl. illiquid investment risk)	120.9	102.9
Liquidity risk	19.8	27.3
Operational risk	63.1	62.7
Pension risk	1.5	103.0
Business risk	42.9	33.6
Economic capital requirement	**406.9**	**475.7**
Utilisation of unallocated risk cover funds (in %)	**44.5**	**46.2**

The Group's risk-bearing capacity remains unchanged and its capitalisation adequate. The table above shows the Group's risk-bearing capacity for the going concern scenario as at 31 December 2016. Accordingly, a maximum loss of €913.9million (2015: €1,029.2million) can be absorbed (free risk cover funds) without infringing the minimum regulatory requirements.

The decline in pension risk is attributable to a change of method. Since the fourth quarter of 2016 interest rate risk as well as the risk of a change in the valuation parameters has been reported in market risk. Exclusively longevity risk of €1.5million (2015: €1.3million) remains in pension risk.

Restructuring plan

In compliance with the provisions of the German Act on the Recovery and Resolution of Credit Institutions (SAG), the EC Commission delegated regulation EU 2016/1075 and other European standards as well as the banking supervision requirements, the HSBC Trinkaus & Burkhardt Group has worked out a restructuring plan.

This restructuring plan comprises a detailed description of the Group's legal and organisational structures and business model, the main business activities and critical functions in the financial markets as well as its internal and external ties. It defines possible situations in which capitalisation, the risk profile, the quality of the assets, the liquidity position or the earnings situation could come under pressure and represent a risk for the Group and assesses their impact. Concrete alternative courses of action are also shown for these situations which enable the Bank to quickly return to a normal operating mode within a defined appetite for risk. In order to observe and identify any negative developments early on, the Bank has defined constantly monitored indicators embedded in the Bank's risk management which guarantee that the Management Board is informed early on and that possible countermeasures examined for their feasibility and effectiveness when drawing up the plan are introduced in good time. Responsibilities and processes for monitoring the Bank's financial stability as well as the escalation, decision-making and communication processes in the event of defined indicator thresholds being exceeded are stipulated in the plan in detail. The plan is updated once a year and also during the course of the year should significant changes in the Group or its environment require this.

Based on the integration of the HSBC Trinkaus & Burkhardt Group into the HSBC Group, which is one of the world's best rated banking groups, the restructuring plan is coordinated and consistent with the interfaces to the HSBC Group and also with the main elements of its restructuring plan.

Risk categories

Strategic and business risk

By strategic risk we mean possible changes in the regulatory and legislative framework, the competitive situation, the macroeconomic data, market conditions as well as in the Group's efficiency which could have a detrimental effect on earning power in the medium term. It arises to begin with from the changed environment to which banks now have to adjust. The new provisions relating to capital adequacy and refinancing of the banking business will lower the profitability of our client-oriented business irrespective of the adjustment measures we carry out. This trend, which will be strengthened by increased costs resulting from other regulatory provisions, will not only apply to our Bank, though. Furthermore, legislative steps such as the introduction of a transaction tax or restrictions on the sale of financial products can have a lasting negative impact on the Bank's earnings base. The continuing low interest rate level with negative interest rates in the ECB's deposit facility will exert major pressure on the earnings situation in the years ahead. Regulation and monetary policy are setting impetus which is not compatible in part. Strategic risk also arises from our strategic orientation with its very selective client focus as there is strong competition for our clients owing to their significance in the market.

HSBC Trinkaus & Burkhard's strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities can only counteract this risk to a limited extent. We will therefore further strengthen our corporate banking business and also expand payment transactions (Global Liquidity and Cash Management) as well as the Global Trade and Receivable Finance business within the scope of our 'Germany 2020' growth strategy. Thanks to our strong integration into the HSBC Group, we can also counteract this risk in a targeted way to a certain extent through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

We are confident that the Bank's strategic position in Germany will not deteriorate as we have been able to improve our market position in all client segments in recent years. The risk premiums for counterparty credit risk have fallen further. Individual banks with low return on equity requirements are still exerting a certain amount of pressure on prices and the margins no longer correspond to the risk from a full credit cycle, but only reflect the currently relatively good cyclical environment with historically low default rates. This trend is being strengthened above all by the ECB continuing to provide the euro money market with excess liquidity. A clear oversupply of loans can be ascertained in Germany in particular, which means that availment remains low relative to the lines granted.

The low interest rate environment, which is leading to the devaluation of deposit operations financed mainly by customer deposits, represents a new challenge and will result in further significant pressure on the Bank's earning power. As a result of the ECB introducing negative interest rates, we are not only losing net interest margin contributions, but also generate losses on the deposit-taking side from a business point of view if we cannot pass on the negative interest rates to our clients in full. Investment income from our liquid funds falls each time a fixed-income bond is repaid. This interest rate environment will weaken our earnings position in 2017 by a double-digit million figure.

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

HSBC Trinkaus & Burkhardt is gearing itself up for comprehensive new regulatory controls. The regulations submitted by far exceed the scope and complexity of the regulations to date. The proposals being discussed, which call for a further significant increase in capital backing, are a cause for concern on the one hand. Implementing them represents a major challenge both technically and with respect to IT resources. This means not only the effort of introducing the new controls, but also complying with the rules and reporting obligations in ongoing operations. It will also lead to a permanent increase in regulatory costs. The Bank's fixed costs will increase substantially, irrespective of its earnings opportunities, and exert a significant influence on the minimum cost-efficient operating size of the Bank. We are aware that the regulatory controls to date have also been brought about by a few banks' acting irresponsibly, which has to be prevented in future, but are concerned about the requirements still to come. The structural and lasting decline in the return on equity associated with the process of transformation in the banking sector will have a fundamental effect on all banks. HSBC Trinkaus & Burkhardt is already actively preparing for the changes ahead as far as it can.

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

On a positive note, the Bank's strategic orientation has proven itself in the banking crisis and in the euro crisis. We are confident that we will be able to successfully implement the 'Germany 2020' strategy due to our consistent client orientation and be a reliable strategic partner for our clients thanks to our improved capitalisation.

Counterparty credit risk

(a) Definition

Counterparty credit risk is understood as the partial or complete default on loans or other debt instruments. It means the risk of the partial or complete default by a business partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as 'sovereign risk'. The counterparty credit risk can be divided into credit, issuer, counterparty, investment and viability risk. Credit risk is the risk that a contractual partner cannot meet its obligations under loan agreements. Issuer risk is the risk of the issuer of a security defaulting. Counterparty risk is understood as the risk of not receiving contractually agreed consideration as a result of the default of a contractual partner, although own performance was rendered. Participation risk is understood as shareholder risk. This comprises potential losses from the provision of capital in the event of the value of the participation deteriorating. Viability or dilution risk describes the risk that the amount of a receivable is reduced by the debtor's cash or non-cash claims.

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

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

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

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

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

(b) Credit risk strategy

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

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

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own clients in their business dealings throughout the world. We are then in the position here to offer comprehensive solutions with the help of the local HSBC units. At the explicit wish of our clients, the Bank is also prepared to finance its clients' foreign subsidiaries directly, provided the parent company guarantees these loans in a legally sound and enforceable manner.

(c) Risk classification systems

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

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

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

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

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

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

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

Definition of the groups:

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

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

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

(d) Limits

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

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

Loans involving sovereign risk are only to be granted within the framework of approved country limits. The Bank takes on country risk – with the exception of HSBC Group lines – only in connection with the clients' commercial business. The Bank's liquidity holdings are an exception. In each case, the principle of risk diversification is to be observed.

When assessing country risk, the Bank relies in particular on the global expertise of the HSBC Group and the assessment methods it uses.

The countries for which country limits have been established are therefore basically classified in the same way as at the HSBC Group. It classifies countries based on a number of quantitative and qualitative risk indicators which are constantly updated and reviewed and evaluated once a year. The HSBC Group uses models to derive the classification from a country-specific overall score, which includes several, mostly factor-weighted individual scores. Countries are therefore classified into six categories depending on their creditworthiness (prime, normal, fair, case by case, restricted, constrained).

The plausibility of the classification is reviewed regularly.

The authority to approve country risk has been delegated by the Management Board – differentiated by country creditworthiness and term – and can be used for the approval of loans in accordance with the Bank's authority ruling. The limits are reviewed at least once a year.

The Risk Committee of the Supervisory Board is informed regularly about the development of the country risk. This also includes a report on the classification, the aggregate risk per country as well as the risk per country in different client groups.

The adherence to country limits is controlled on a daily basis, also taking risk transfers to or from other countries into consideration.

e) Organisation of the credit process

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

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

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

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

Non-performing, doubtful or problematic debts are dealt with intensively by or under the direction of a specialist organisational unit outside the market so that suitable measures to limit the risk can be taken early on.

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

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

(f) Maximum default risk

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

Collateral received and other risk-reducing techniques are not included. The following table shows the Bank's theoretical maximum default risk as of the balance sheet.

	31.12.2016		31.12.2015	
	in €m	in %	in €m	in %
Loans and advances	**9,737.0**	**29.4**	**9,062.7**	**28.9**
to banks	1,256.0	3.8	1,186.5	3.8
to customers	8,481.0	25.6	7,876.2	25.1
Trading assets	**6,317.7**	**19.0**	**5,556.2**	**17.7**
Bonds and other fixed-income securities	1,534.8	4.6	1,725.2	5.5
Equities and other non-fixed-income securities	1,161.5	3.5	1,161.9	3.7
Tradable receivables	1,766.0	5.3	929.2	3.0
OTC derivatives	1,855.1	5.6	1,738.8	5.5
Derivatives in hedging relationships	0.2	0.0	0.0	0.0
Derivatives held in the banking book	0.1	0.0	1.1	0.0
Financial assets	**5,351.0**	**16.1**	**5,688.6**	**18.1**
Bonds and other fixed-income securities	5,089.9	15.3	5,390.8	17.2
Equities	0.0	0.0	0.0	0.0
Investment certificates	49.8	0.2	64.8	0.2
Promissory note loans	138.9	0.4	149.6	0.5
Investments	72.4	0.2	83.4	0.2
Contingent liabilities	**2,405.1**	**7.3**	**2,310.9**	**7.4**
Loan commitments	**9,356.5**	**28.2**	**8,769.6**	**27.9**
Total	**33,167.3**	**100.0**	**31,388.0**	**100.0**

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

Netting agreements, where offsetting contracts with one customer can be netted against each other under certain conditions, are concluded specifically in the derivatives business or agreements over guarantees for market values in the form of specific collateral. These agreements significantly reduce the maximum default risk shown above (cf. Note 'Offsetting of Financial Assets and Financial Liabilities'.

(g) Collateral and other risk-reducing techniques

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

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

in €m	31.12.2016				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	**1,256.0**	**8,481.0**	**2,405.1**	**9,356.5**	**21,498.6**
of which uncollateralised	1,249.6	7,597.3	2,302.3	9,202.8	20,352.0
of which fully collateralised	6.4	456.6	76.8	8.5	548.3
of which partly collateralised	0.0	427.1	26.0	145.2	598.3
Amount of partial collateralisation	0.0	209.7	8.3	70.5	288.5

in €m	31.12.2015				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	**1,186.5**	**7,876.2**	**2,310.9**	**8,769.6**	**20,143.2**
of which uncollateralised	1,178.8	7,082.2	2,180.7	8,696.4	19,138.1
of which fully collateralised	7.7	367.6	54.5	0.0	429.8
of which partly collateralised	0.0	426.4	75.7	73.2	575.3
Amount of partial collateralisation	0.0	241.3	34.2	23.1	298.6

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

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

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

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract and the credit standing of the guarantor. In contrast, physical collateral (assigned receivables and rights and transfers of title to objects as security) is valued based on its special features in each individual case, taking all of the relevant risk parameters into consideration. For example, when carrying out the valuation, the legal status of the collateral agreement and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location, the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is determined for each collateral received.

Land charges should be within a loan-to-value ratio of 60 %, up to 65 % in individual cases, of the market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

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

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

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

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

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

in €m	31.12.2016				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	**1,256.0**	**8,328.5**	**2,400.2**	**9,344.2**	**21,328.9**
Overdue, but not impaired	0.0	138.1	0.0	0.0	138.1
Individually impaired*	0.0	14.4	4.9	12.3	31.6
Total	**1,256.0**	**8,481.0**	**2,405.1**	**9,356.5**	**21,498.6**

in €m	31.12.2015				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	**1,186.5**	**7,680.1**	**2,310.9**	**8,769.6**	**19,947.1**
Overdue, but not impaired	0.0	174.1	0.0	0.0	174.1
Individually impaired*	0.0	22.0	0.0	0.0	22.0
Total	**1,186.5**	**7,876.2**	**2,310.9**	**8,769.6**	**20,143.2**

* Including the setting-up of provisions for credit risks.

Trading assets and financial assets

The following overview takes bonds and other fixed-interest securities into consideration for which external ratings (as a rule Standard & Poor's) are available on a regular basis. Should various rating agencies arrive at differing valuations of the same financial assets, they are assigned to the lower rating category in each case.

in €m	31.12.2016			31.12.2015		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	320.5	1,570.3	1,890.8	511.9	2,259.4	2,771.3
AA+ to AA–	1,078.8	1,980.6	3,059.4	918.6	1,696.9	2,615.5
A+ to A–	51.4	190.8	242.2	98.3	174.0	272.3
BBB+ to BBB–	84.1	1,047.5	1,131.6	53.2	1,027.9	1,081.1
Lower than BBB–	0.0	300.7	300.7	0.0	223.1	223.1
No rating	0.0	0.0	0.0	143.2	9.5	152.7
Total	**1,534.8**	**5,089.9**	**6,624.7**	**1,725.2**	**5,390.8**	**7,116.0**

We determine the quality of the tradable receivables in trading assets and financial assets by means of an internal rating procedure (CRR). The credit quality as at the balance sheet date was as follows:

in €m	31.12.2016			31.12.2015		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
CRR 1 to CRR 2	1,179.2	86.4	1,265.6	723.6	96.4	820.0
CRR 3	586.8	19.2	606.0	205.6	53.2	258.8
CRR 4 to CRR 5	0.0	33.3	33.3	0.0	0.0	0.0
CRR 6 to CRR 8	0.0	0.0	0.0	0.0	0.0	0.0
CRR 9	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1,766.0**	**138.9**	**1,904.9**	**929.2**	**149.6**	**1,078.8**

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

		31.12.2016		31.12.2015	
		in €m	in %	in €m	in %
OECD	Banks	1,138.4	61.5	1,189.2	68.4
	Financial institutions	418.3	22.5	248.2	14.3
	Other	291.4	15.7	294.9	16.9
Non OECD	Banks	6.4	0.3	6.7	0.4
	Financial institutions	0.8	0.0	0.5	0.0
	Other	0.1	0.0	0.4	0.0
Total		**1,855.4**	**100.0**	**1,739.9**	**100.0**

i) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired with an internal rating procedure (CRR) (cf. section c) Risk classification systems). The credit quality as at the balance sheet date was as follows:

in €m	31.12.2016				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
CRR 1 to CRR 2	1,014.7	2,093.7	815.6	3,832.2	7,756.2
CRR 3	192.6	3,175.7	828.0	3,670.5	7,866.8
CRR 4 to CRR 5	42.6	2,915.1	652.1	1,783.1	5,392.9
CRR 6 to CRR 8	6.1	134.5	102.9	58.2	301.7
CRR 9	0.0	9.5	1.6	0.2	11.3
Total	**1,256.0**	**8,328.5**	**2,400.2**	**9,344.2**	**21,328.9**

in €m	31.12.2015				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
CRR 1 to CRR 2	635.8	1,917.2	796.9	3,936.5	7,286.4
CRR 3	534.4	3,263.3	917.3	3,655.6	8,370.6
CRR 4 to CRR 5	9.3	2,426.6	511.0	1,153.9	4,100.8
CRR 6 to CRR 8	7.0	72.7	85.7	22.6	188.0
CRR 9	0.0	0.3	0.0	1.0	1.3
Total	**1,186.5**	**7,680.1**	**2,310.9**	**8,769.6**	**19,947.1**

(j) Information on renegotiated and deferred problem exposures

Problem exposures that have been restructured in such a way that the Bank has granted a client concessions for economic or legal reasons based on their financial problems, which it would not have been prepared to grant under other circumstances, are reported as renegotiated exposures. Furthermore, the Bank agrees deferrals with clients in financial difficulties in order to make it easier for them to fulfil the contractual obligations for a limited period. However, the amount not paid during the deferral phase must by settled again at a later date. In both cases we carry out an assessment of the loss and, where necessary, recognise a valuation allowance and report these loans as impaired. Loans and advances to customers include renegotiated or deferred exposures of €63.0million (2015: €45.4million). The impairments on renegotiated or deferred exposures amounted to €4.5million as at the balance sheet date (2015: €13.1million).

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

The Bank's loans and advances which have not been impaired although overdue amounted to €138.1million on the balance sheet date (2015: €174.1million) and are exclusively to customers. €99.3million (2015: €168.3million) is the result of the purchase of credit-insured accounts receivable in the factoring business. The fair value of the collateral stood at €93.7million, of which the factoring business accounted for €89.3million (2015: €151.4million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full. Of the overdue, but not impaired loans and advances, €121.6million is less than 30 days overdue and €16.5million between 30 days and 90 days overdue.

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

HSBC Trinkaus & Burkhardt creates net loan impairment provisions as soon as there are objective, substantial indications suggesting that the value of a financial asset is reduced. Such indications include the following: substantial financial difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers; breaches of contract such as default or arrears in respect of interest and redemption payments; the risk of insolvency proceedings or other capital restructuring requirements; the disappearance of an active market for this financial asset; other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, the amount of the impairment is calculated from the difference between the book value and the cash value of the expected payment flows. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by a back office employee. Problematic exposures for which net loan impairment provisions have been set up are classified as being in default in terms of their credit rating and are therefore automatically assigned to CRR 9 or 10. In order to allow for country risks, net loan impairment provisions can also be set up for exposures with higher credit ratings. Net loan impairment and other credit risk provisions for country risks stood at €0.7 million in the year under report (2015: €1.0million).

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

in €m	31.12.2016			31.12.2015		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before IAI*						
CRR 9	0.0	9.4	9.4	0.0	16.7	16.7
CRR 10	0.0	5.0	5.0	0.0	5.3	5.3
Total	**0.0**	**14.4**	**14.4**	**0.0**	**22.0**	**22.0**
IAI*						
CRR 9	0.0	5.4	5.4	0.0	9.5	9.5
CRR 10	0.0	2.3	2.3	0.0	4.7	4.7
Total	**0.0**	**7.7**	**7.7**	**0.0**	**14.2**	**14.2**
Book value after IAI*	**0.0**	**6.7**	**6.7**	**0.0**	**7.8**	**7.8**

*IAI: individually assessed impairments.

Individually assessed impairments for contingent liabilities and loan commitments stood at €4.2million on the balance sheet date (2015: €0.0million). In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at €15.5million (2015: €14.2million) for loans and advances and €14.2million (2015: €15.2million) for contingent liabilities and loan commitments.

Impairments on financial assets came to €31.8million (2015: €42.0million) as at the balance sheet date.

(m) Information on collateral received

The Bank held no collateral for individually impaired loans and advances on the balance sheet date (2015: €2.8million).

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

Collateral and other credit improvements amounting to €3.2million were realised and drawn on, respectively, in the 2016 financial year (2015: €0.9million).

(o) Information on default risk concentration

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

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

	31.12.2016		31.12.2015	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	19,403.0	58.5	17,700.4	56.4
Banks and financial institutions	8,246.9	24.9	8,095.4	25.8
Public sector	5,286.6	15.9	5,352.7	17.0
Employed private individuals	230.8	0.7	239.5	0.8
Total	**33,167.3**	**100.0**	**31,388.0**	**100.0**

The breakdown by sector shows that the maximum default risk exists essentially vis-à-vis companies and self-employed professionals on the one hand and banking organisations on the other. Other units of the HSBC Group account for €1,835.2million (2015: €1,850.7million) of the default risk vis-à-vis banking organisations.

	31.12.2016		31.12.2015	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	22,535.3	68.0	20,755.5	66.2
Other EU (plus Norway and Switzerland)	8,299.7	25.0	7,956.3	25.3
North America	1,021.6	3.1	1,247.0	4.0
Asia	663.9	2.0	633.1	2.0
Africa	369.9	1.1	35.7	0.1
South America	139.9	0.4	157.7	0.5
Rest of Europe	75.9	0.2	563.9	1.8
Oceania	61.1	0.2	38.8	0.1
Total	**33,167.3**	**100.0**	**31,388.0**	**100.0**

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

There was the following exposure to selected European countries as at the balance sheet date:

in €m	31.12.2016			
	States	Banks	Other clients	Total
Spain	314.0	10.7	55.7	380.4
Italy	309.5	7.9	48.4	365.8
Ireland	0.0	0.1	35.0	35.1
Greece	0.0	0.2	4.2	4.4
Portugal	0.0	0.0	0.2	0.2
Hungary	0.0	0.2	0.4	0.6

in €m	31.12.2015			
	States	Banks	Other clients	Total
Spain	298.5	11.5	62.0	372.0
Italy	299.6	0.7	83.8	384.1
Ireland	0.0	0.3	28.3	28.6
Greece	0.0	0.1	4.0	4.1
Portugal	0.0	0.5	1.7	2.2
Hungary	0.0	0.1	2.2	2.2

(p) Credit portfolio management

The Risk Control department is responsible for providing the economic risk-weighted assets of the credit positions as well as the analysis of the credit risk on portfolio level. For this purpose the Bank uses the RiskFrontier credit portfolio model also used in the HSBC Group, which takes both correlation risks within countries, sectors and groups and changes in value due to migration risks into consideration based on the Merton approach and a multi-factor correlation model. The risk analysis of the credit portfolio with RiskFrontier is carried out on the reporting date at the end of the quarter and its results are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

A simplified portfolio model based on the credit risk measurement systems established within the scope of the IRBA report is used for the daily monitoring of the credit risk limits between the quarterly reporting dates. To allow for correlation and migration risk in daily monitoring, a scaling factor between RikFrontier and the simplified portfolio model is derived based on the quarterly calculation and applied to the results of the simplified model.

(q) Stress test

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

Operational risk

We define 'operational' risk as the risk of not achieving the objective of our strategy or goals due to the inadequacy or failure of internal processes, people and systems, or due to external events. Operational risk is relevant in every area of business and covers a wide range of topics. Losses resulting from fraud, unauthorised activities, errors, omissions or inefficiencies fall under the definition of operational risk. The following types of risk are also regarded as operational risk among others:

Compliance risk subsumes the risk of loss or damage the Bank may suffer should certain activities not be carried out in accordance with the valid legal provisions, general procedural obligations or international requirements. Examples of important provisions are the Securities Trading Act, the Money Laundering Act as well as sanctioning provisions. Compliance risk also includes the risk of fraud. Potential loss and damage is not only that of a financial nature, but also the risk relating to the Bank's reputation, the risk of legal disputes and the risk of supervisory measures. As regards compliance risk, the Bank differentiates between risk relating to financial crime (Financial Crime Compliance) and risk addressing other breaches of law and regulations (Regulatory Compliance).

Legal risk includes the potential liability to pay fines, penalties or pay punitive damages as a result of supervisory measures, court decisions or out-of-court settlements. Legal risk may also arise, for example, where claims against counterparties cannot be enforced or where the Bank finds itself placed under an unintentional obligation.

The Bank defines reputational risk (in keeping with the definition of the Bank of International Settlements) as the risk that a negative perception by third parties (clients, counterparties, shareholders, investors, debtors, market analysts, supervisory authorities or other relevant parties) may negatively impact the Bank's ability to safeguard its existence and establish new business relationships, and its access to sources of financing.

The Bank understands model risk as the potential loss or the potential false assessment of the risk that arises for the Bank as a result of incorrect conception, application or parameterisation.

The Bank has installed three safeguarding levels to secure the effectiveness of risk management and the control environment: the first level comprises those responsible for risk and controlling supported by the so-called 'Business Risk Control Managers' in the business segments and at the subsidiaries. They ensure that the key controls are carried out in accordance with the working process descriptions applicable in each case and that the risk is reduced to the degree required from the cost-benefit point of view. For this purpose, particularly important controls are examined in detail and the results of these examinations formally documented so that the necessary improvement measures can be introduced on this basis if required. The Operational Risk team and the so-called Risk Stewards monitor the valuation of risks and the execution of the controls in the second level. The Risk Stewards are each responsible for monitoring a special risk category, such as compliance, legal, system or operational risk, and make sure that the appetite for risk stipulated by the Management Board is not exceeded. The third level is covered by the internal audit department within the scope of carrying out audit reports.

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

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

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

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

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

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

One central method of proactively determining material risk is so-called 'risk and control assessment'. As part of a structured brainstorming process, the core risks including the key controls are identified and documented for each division or process which is significant from a risk perspective. The process comprises assessing the inherent risk before allowing for the effectiveness of the control environment on the one hand and the residual risk after allowing for the effectiveness of the key controls implemented on the other. The residual risk is evaluated based on the expected typical loss from operational risk and the risk potential in a serious case. In this context direct financial costs and indirect consequences for customer service, reputation and supervisory consequences are taken into consideration. Furthermore, we deploy scenario analysis methods to determine the greatest operational risks and use key indicators to identify a change in the extent of the risks and the deterioration of control effectiveness as early as possible.

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

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

Workflow descriptions of the individual business processes stipulate in detail which controls are built into the processes in question, are revised on a regular basis and managed centrally. The Bank improved the documentation of strategies and business processes in the year under report and will continue with this consistently also in the current financial year.

Information risks are managed by the Information Security Risk Committee. The Committee meets on a quarterly basis to discuss relevant issues, stipulate key points of emphasis and decide upon corresponding measures.

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

Observance of the HSBC Group's guidelines is guaranteed by the integration of the head of Operational Risk and Information Security Risk into the corresponding activities of the HSBC Group.

In accordance with the organisation in the HSBC Group, the Bank has divided the management and control of compliance risk between the Financial Crime Compliance (FCC) and Regulatory Compliance (RC) teams. The heads of Regulatory Compliance and Financial Crime Compliance report directly to the Chairwoman of the Management Board as well as in functional terms to the Management Board member responsible for Risk, and are also involved in the HSBC Group's compliance organisation. They provide the recipients with the information they require on current legal developments relevant for compliance, results of control procedures, findings from other sources, operating problems, topics relating to anti-money laundering, the prevention of terrorist financing as well as other criminal offences in respect of the Bank and its subsidiaries.

The heads of Financial Crime Compliance and Regulatory Compliance are permanent members of the Bank's Risk Management Meeting and report to it on the compliance risk in the company on a monthly basis. The head of FCC is also a member of the Global Standards In-Country Execution Committee, which is responsible for introducing the highest standards in the area of anti-money laundering, observing sanctions and the prevention of terrorist financing.

The management and control of compliance risk is carried out jointly by the two compliance teams.

Market risk

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

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

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

The following are included as risk factors above all:

- Cash stock prices and stock indices
- Spot exchange rates
- Commodities prices
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories, such as Pfandbriefe, federal state bonds and bank bonds with further differentiation by creditworthiness and/or maturity
- Equity and equity index option volatilities for typical maturities
- Foreign exchange options volatilities for typical maturities

- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

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

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result (clean P&L) for the previous day's trading position with the value-at-risk calculated for that position. If the evaluated result exceeds the value-at-risk as a loss in this analysis, it is referred to as a negative back-testing anomaly. In addition, the economic evaluated result taking new business into consideration (dirty P&L) is also used in back testing.

No back testing anomalies were incurred on trading book level in the Bank in 2016. Owing to the methodical challenges with regard to the determination of the interest value-at-risk in the low interest rate environment, the method used was adjusted on 12 August 2016 from relative historical shifts to absolute historical shifts. This model adjustment, which was approved by the regulatory authority, led to a significant reduction in the value-at-risk, which had previously increased successively. The value-at-risk therefore declined compared to the previous day by 35 % in the trading book and by 9 % in the banking on 12 August 2016.

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

in €m		2016		
		31.12.	Maximum	Average
Trading book	Interest rate risk	2.2	6.0	3.4
	Currency risk	0.1	0.4	0.1
	Equity/index risk	0.7	1.6	0.7
	Credit spread risk	2.3	2.3	1.8
	Commodities risk	0.0	0.2	0.0
	Diversification	2.2	3.3	2.3
	Overall risk	**3.1**	**5.6**	**3.8**
Banking book	Interest rate risk	3.4	8.8	2.8
	Currency risk	0.0	0.8	0.1
	Equity/index risk	1.7	3.0	2.4
	Credit spread risk	3.3	3.6	2.9
	Commodities risk	(–)	(–)	(–)
	Diversification	3.8	7.3	2.9
	Overall risk	**4.6**	**7.5**	**5.3**

in €m		2015		
		31.12.	Maximum	Average
Trading book	Interest rate risk	3.2	5.8	3.0
	Currency risk	0.1	0.4	0.1
	Equity/index risk	0.6	1.1	0.5
	Credit spread risk	2.0	3.2	2.3
	Commodities risk	0.0	0.1	0.0
	Diversification	2.6	3.4	2.6
	Overall risk	**3.3**	**5.6**	**3.3**
Banking book	Interest rate risk	1.6	3.5	1.4
	Currency risk	0.1	2.0	1.1
	Equity/index risk	1.8	3.5	2.6
	Credit spread risk	2.3	3.3	2.3
	Commodities risk	(–)	(–)	(–)
	Diversification	2.2	4.6	2.9
	Overall risk	**3.7**	**6.0**	**4.5**

Risks relating to interest rates (including general credit spread risks) and equities still represent the Bank's greatest market risk. The volatility of the value-at-risk in both the banking book and the trading book was almost unchanged compared to the previous year up until the model adjustment on 12 August 2016. However, after the model adjustment, a decline in volatility was observed attributable above all to the interest rate risk. The balance sheet management book was restructured on 23 November 2016. Those parts of the book that are to be assigned to the banking book on the balance sheet, but which had been so far entered in the regulatory trading book due to an exceptional ruling, were transferred to the regulatory banking book in agreement with the regulatory authority. As a result, the (interest rate) risk was shifted from the trading book to the banking book.

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

The so-called 'stressed value-at-risk' is also reported. The underlying period of particular stress on the markets was changed with effect from 12 August 2016. Before this date, the period from March 2008 to February 2009 was used as the stress period; with the adaptation of the method used to calculate interest rate risk mentioned above, it had become necessary to adjust the period as the period used to date would have led to a low stressed value-at-risk under the new method. The adjustment of the period ensures that the value-at-risk is determined conservatively. Since 12 August 2016 we have been using the period from June 2008 to June 2009 as the stress period. The model used to calculate the stressed value-at-risk is largely the same as that used to determine the normal value-at-risk. However, in order to avoid scaling assumptions the calculation is based directly on a history of overlapping ten-day periods. In keeping with the regulatory provisions, the length of the history was fixed at one year instead of 500 trading days so far. The stressed value-at-risk fluctuated just as strongly as the normal value-at-risk over the course of 2016. The normal value-at-risk was constantly below the stressed value-at-risk from January to mid-July in 2016. There were then individual days in July and August 2016 upon which the value-at-risk exceeded the stressed value-at-risk. However, after the model adjustment on 12 August 2016, the relationship between these two risk ratios returned to normal and the stressed value-at-risk has since exceeded the value-at-risk significantly again. The stressed value-at-risk was €5.2million as at the reporting date.

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

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

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

Liquidity risk

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

(b) Strategy
Our liquidity risk strategy envisages that the Bank can finance itself without recourse to the HSBC Group at any time and can also fulfil its payment obligations even in an emergency without the HSBC Group's support.

The constant raising of funds from institutional investors on the capital market (wholesale funding) is of no major significance for our liquidity management.

We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit either at present. Customer deposits are our primary source of financing.

The Bank has further scope for refinancing within the scope of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO).

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

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

Our liquidity risk management is based consistently on two central regulatory management ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and supplemented by further internal analysis, such as depositor concentration or maturity concentration. The expected development of the ratios is observed continuously in the Bank's rolling liquidity forecasts.

(d) Regulatory requirements

The Capital Requirements Regulation (CRR) has also been applicable law in Germany as European law since the beginning of 2014. The CRR contains large parts of the changes to the regulatory requirements known as 'Basel III'. The rules on liquidity are a key feature of the CRR. The ratios already mentioned above – the LCR and the NSFR – are defined for monitoring the liquidity situation of banks in particular.

The Liquidity Ordinance (LiqV) also remains in force for a transitional period.

The regulatory minimum for the LCR will rise successively from October 2015, from 60 % to reach 100 % by January 2018. The delegated regulation supplementing the CRR, which has been applicable since 1 October 2015, specifies the liquidity requirements formulated in the CRR to date in more detail and modifies individual rules.

The minimum requirement for the NSFR and the final definition have not yet been finally stipulated by the regulatory authorities.

In addition to the LCR and NSFR, the Bank included reports on 'Additional Liquidity Monitoring Metrics' (ALMM) in 2016. Six reports will be drawn up within the scope of this new regulatory requirement. These reports will comprise liquidity progress reviews, including maturity and new business information, an overview of the largest depositors, an overview of the largest investments in liquid securities as well as information on prices for refinancing sources.

The following overview shows the Bank's regulatory 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)	
	2016	**2015**
31.12.	2.50	2.75
Minimum	1.95	2.48
Maximum	2.75	3.06
Average	2.42	2.81
Regulatory minimum	**1.00**	**1.00**

The LCR is a ratio used by banks for evaluating short-term liquidity risk and puts highly liquid assets in relation to the overall net outflow of funds in the next 30 calendar days. The LCR determined for internal risk management came to 132.7 % (2015: 120.3 %) at the end of the year.

	Liquidity coverage ratio	
in %	2016	2015
31.12.	132.7	120.3
Minimum	107.4	106.6
Maximum	146.5	183.2
Average	124.9	148.0

(e) Internal liquidity risk management and liquidity cushion

The Bank's internal liquidity risk management is based consistently on the requirements of the LCR and the NSFR. While the NSFR cannot yet be finally quantified from the CRR, a NSFR based on the BCBS-295 paper is already being used for internal management. The Bank's liquidity transfer pricing is also based on the regulatory logic of the LCR and the NSFR.

Similarly, the liquidity cushion is determined based on the regulatory requirements of the LCR and the NSFR. The inflows and outflows to be forecast therefore correspond to the net outflow of funds of the stress scenario implicitly modelled in the LCR, which shows both idiosyncratic and systemic stress elements. The net outflow of funds modelled in this stress scenario of the LCR is set against the liquidity cushion. This consists of cash and central bank balances as well as the High Quality Liquid Asset (HQLA) Position according to the LCR and allows for the same (differing) mark-downs on the market value. The liquidity cushion therefore consists to a large extent of government and corporate bonds as well as highly liquid equities, all of which are eligible for central bank borrowing with a few exceptions

Correspondingly, the net balance of the inflows and outflows after the realisation of the liquidity cushion must be clearly positive.

The Bank regularly makes sure that the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be accessed and realised at any time. At at 31 December 2016 we had deposited assets with a collateral value of €3.72billion (31 December 2015: €4.15billion) at the Bundesbank, giving us potential access to central bank loans to this extent. As part of a test transaction to validate our emergency liquidity plan, we participated in one ECB main refinancing transaction to a minor extent in 2016.

(f) Financing structure and liquidity run-off profiles

To monitor the maturity matching of the financing structure, the Bank uses the Additional Liquidity Monitoring Metrics Report C.66 (Contractual Maturity Ladder), which corresponds to a liquidity run-off profile pursuant to MaRisk. This report breaks down a bank's balance sheet items by their contractual term aimed at showing possible maturity mismatches as well as the resulting financing requirements. The report highlights to what extent a bank is reliant on maturity transformation. The dependence on individual creditors is also measured based on concentration ratios. There is no material concentration with respect to either assets and financing sources or foreign currencies.

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

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 limited as the expected cash flows upon which the assumptions are based are used above all for effective management. The information relating to internal liquidity management as well as the supervisory ratios give a far better insight into the liquidity position here.

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 as is shown in the balance sheet.

in €m	31.12.2016						
	Gross outflow (not discounted)						
	Present value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12m > 5y	> 5y
Financial liabilities within the balance sheet:							
Deposits by banks	1,786.2	1,806.4	671.5	19.7	32.2	1,018.4	64.6
Customer accounts	13,623.3	13,625.7	12,869.5	488.3	263.4	0.6	3.9
Certificated liabilities	45.4	52.5	10.4	0.0	0.4	1.5	40.3
Trading liabilities (excluding derivatives*)	2,326.6	3,353.0	170.1	208.8	780.5	360.2	1,833.4
Other liabilities	80.2	80.2	62.4	3.2	14.6	0.0	0.0
Subordinated capital	437.7	511.4	11.5	1.9	43.6	241.8	212.6
Sub-total	18,299.4	19,429.2	13,795.4	721.9	1,134.6	1,622.4	2,154.8
Financial liabilities outside the balance sheet:							
Financial guarantees	2,405.1	2,405.1	2,405.1	0.0	0.0	0.0	0.0
Loan commitments	9,356.5	9,356.5	9,356.5	0.0	0.0	0.0	0.0
Total	**30,061.0**	**30,190.8**	**25,557.0**	**721.9**	**1,134.6**	**1,622.4**	**2,154.8**

* In accordance with IFRS 7, no derivatives are included in the liquidity analysis by contractual residual term.

in €m	31.12.2015						
	Gross outflow (not discounted)						
	Present value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12m > 5y	> 5y
Financial liabilities within the balance sheet:							
Deposits by banks	752.4	759.6	643.8	6.0	3.7	77.9	28.2
Customer accounts	12,928.8	12,938.5	12,117.9	547.9	228.0	40.7	4.0
Certificated liabilities	10.0	10.8	0.4	0.0	0.0	10.4	0.0
Trading liabilities (excluding derivatives*)	2,720.9	3,735.3	165.5	261.0	867.2	524.1	1,917.5
Other liabilities	71.4	71.4	65.7	2.3	3.4	0.0	0.0
Subordinated capital	458.2	542.8	0.0	0.6	47.1	240.1	255.0
Sub-total	17,055.7	18,058.4	12,993.3	817.8	1,149.4	893.2	2,204.7
Financial liabilities outside the balance sheet:							
Financial guarantees	2,293.9	2,293.9	2,293.9	0.0	0.0	0.0	0.0
Loan commitments	8,769.6	8,769.6	8,769.6	0.0	0.0	0.0	0.0
Total	**28,119.2**	**29,121.9**	**24,056.8**	**817.8**	**1,149.4**	**893.2**	**2,204.7**

* In accordance with IFRS 7, no derivatives are included in the liquidity analysis by contractual residual term.

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

Overall picture of the risk situation

The overall picture of the Bank's risk situation remains balanced. Based on the assessments in January 2017 the following statements can be made which, however, may change significantly over the further course of the financial year owing to changes in the Bank's environment or business activities.

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

The probability that the liquidity risk will be incurred is assessed as very low. Should the Bank's current liquidity position deteriorate contrary to expectation, the adequate supply of liquidity is guaranteed in the euro money market by the ECB. In the event of tensions on the euro money market, to which the ECB does not react by injecting further liquidity, the repercussions will be cushioned by the Bank's high liquidity reserve. Due to the increase in lending among other things, the Bank still has scope for drawing down funds from the ECB's TLTRO.

A medium probability of occurrence is assumed with respect to the market risk. Owing to the still low limit allocation and utilisation, established processes and experienced management on the front and back office side, and thanks to our market price risk management system, we expect to be able to react to market distortions in good time and that major losses are therefore unlikely. The experiences in connection with the Brexit vote in 2016 have confirmed this assumption. A substantial interest rate increase by the ECB represents the greatest market risk for the Bank, but is assessed as highly unlikely for 2017 based on the communications from the ECB. As the consolidation of government debt in the Eurozone has made no significant progress to date, also on account of lower growth rates, and there are also unsolved problems in the Italian banking system at present, the risk of the Eurozone partially breaking up cannot be completely ruled out. This risk would have a significant impact on the Bank, but is regarded as very unlikely for 2017 at present. However, a greater risk is seen in this respect for the years ahead.

In view of the stable macroeconomic environment in the national economies which are significant for our business, we expect a medium probability of occurrence for counterparty credit risk. We are concerned about protectionist tendencies, which could have a major negative impact for Germany as an export nation. We expect no significant slowdown in growth in China. Should this nevertheless come about, all of the emerging markets and important clients of German export companies would be affected. This could lead to an increased credit risk situation. As a result of the expansion of the credit portfolio as part of the growth strategy, we assume an increased counterparty credit risk compared to the previous year overall. Owing to the risk concentration in the portfolio, an individual default can already lead to notable higher risk provisioning requirements.

We cannot predict the further development of the geopolitical risk. This applies in particular to the existing conflicts in the Syria and Iraq region and the tensions in Arab countries, which are having an impact on neighbouring states as well as EU and NATO states and can therefore also have a considerable influence on the Bank's trading partners. Further geopolitical trouble spots also still exist.

We assess the probability of occurrence of operational risk as higher compared to the previous years due to the implementation of the regulatory requirements as well as the projects already under way and still outstanding in conjunction with the growth strategy and the integration of new employees. Greater attention is being paid to this risk within the scope of project management and day-to-day controlling in order to avoid incidents in as far as possible. Owing to the large number of projects with limited resources, there is an increased execution risk that projects will not be completed on time and within budget in the envisaged quality.

Despite our consistent client-oriented strategy, together with our solid capitalisation, which was strengthened further in 2016, we see significantly increased strategic risk on account of the continuing low interest rate policy on the euro money market as well as external regulatory or political influences which the Bank cannot govern. The glut of liquidity which has been pumped in by the ECB's various expansionary measures and led to surplus liquidity combined with negative interest rates on the euro money market represents a considerable burden for the Bank's earnings situation. It is all the more significant in that the period of extremely low interest rates will not come to an end in 2017, even though further interest rate increases by the FED are expected for the US. Due to the extremely low level of interest rates, it is not to be ruled out that bubbles will form on the capital, commodities or real estate markets, which may lead to significant volatility.

The Bank's overall risk profile is to be assessed as average at present, but tending towards an increased level due to the low interest rate environment. It is not possible to make a comprehensive assessment of all general parameters and the impact that they will have on business activity, the 2017 business result and the medium to long-term trend in earnings. A permanent risk management process is therefore of major importance for the Bank. It requires a rapid response to changes in the general setting or an unplanned business development. Thanks to our functional management system, strong capitalisation and liquidity situation and open culture of communication and corporate responsibility, the Bank is well prepared for the challenges in risk management.

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

General

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

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

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

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

The ICS in the accounting process is documented comprehensively and examined and updated annually within the scope of the requirements under the US Sarbanes Oxley Act (SOX), which is indirectly applicable to us as well through the listing of the HSBC shares in New York. The Bank follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code. Pursuant to section 161 German Stock Corporation Act (AktG) the Management Board and Supervisory Board declare on an annual basis that the recommendations of the 'Government Commission for 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.hsbc.de).

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

Organisational structure

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

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the ICS. Dr Eric Strutz, Berg, was Chairman of the Audit Committee as at 31 December 2016. Further members at this time were Dr Hans Michael Gaul, Düsseldorf, Simon Leathes, London, and Ralf Rochus, Essen.

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

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

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

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

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

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

General structure of the ICS

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

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

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

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

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

Specific components of the ICS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information Relevant for Acquisitions

Shareholders and shares

Capital

At 31 December 2016 the Bank's issued share capital was €91.4million divided into 34.1 million no-par value shares. 63.0 % of the share capital is listed on the Düsseldorf and Stuttgart stock exchanges.

All shares have uniform rights and are bearer shares in principle. Each no-par-value share carries one vote. No shares have been issued with special rights conferring powers of control. The Management Board knows of no limitations affecting voting rights or the transfer of shares. Where employees hold shares of HSBC Trinkaus & Burkhardt AG, they exercise their control rights as other shareholders in accordance with the statutory provisions and the Articles of Association. HSBC Holdings plc, London, indirectly held 80.7 % of the share capital on the balance sheet date. Landesbank Baden-Württemberg, Stuttgart, still holds a direct share of 18.7 %.

Share price and market value

During 2016 our share price declined by 12.59 % to €63.72. The lowest fixing price of the year was €59.56 and the highest €73.00. From the initial issue price of DM 190 (€97.20) per DM 50 nominal share on 25 October 1985, the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.64	317.52
31.12.1990	22,000,000	19.79	435.38
31.12.1995	23,500,000	30.58	718.63
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.75
31.12.2010	28,107,693	89.00	2,501.58
31.12.2011	28,107,693	90.20	2,535.31
31.12.2012	28,107,693	87.19	2,450.71
31.12.2013	28,107,693	84.80	2,383.53
31.12.2014	34,088,053	70.00	2,386.16
31.12.2015	34,088,053	72.90	2,485.89
31.12.2016	34,088,053	63.72	2,172.09

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

Dividends

For the 2016 financial year we propose paying a dividend of €2.50 per share (2015: € 2.50 per share). With a dividend total of €85.2million (2015: €85.2million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2016.

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 consisted of four people on 31 December 2016.

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

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

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

In accordance with the resolution passed by the Annual General Meeting on 2 June 2015, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 31 May 2020. The Management Board of the Bank has decided not to make use of this authorisation until further notice.

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

Sustainable Corporate Management

The HSBC Trinkaus & Burkhardt Group is committed to sustainable company management. For us, sustainability means establishing business activities for the long term and taking social, ecological and economic aspects into consideration in the decisions we take.

Our responsibility

Sustainability is a cornerstone of our strategic orientation. We support companies in expanding their business activity and provide for the welfare and positive development of communities, thus doing justice to our responsibility as an international bank. Since 2008 our entire sustainability activities have been coordinated centrally by the Corporate Sustainability (CS) team, which reports directly to the Chairwoman of the Management Board.

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

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

Corporate Sustainability at HSBC Trinkaus & Burkhardt AG

Economic responsibility
CS in the core business

Lending

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

Responsible Investing

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

Ecological responsibility
Dealing with resources

Environment Footprint Management

- Environmental stipulations in purchasing guidelines
- Employee sensitisation

Involvement in HSBC Water Programme project

Social responsibility
Social commitment

Social commitment

- Youth and education
- Art and culture
- Health and medical research
- HSBC Trinkaus Jugend & Bildung e. V.

Additional benefits for employees

- Company pension schemes
- Compatibility of family and working life
- Supporting employee commitment

Sustainable financing

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

In our opinion, taking both environmental and social as well as corporate governance criteria into consideration has a substantial influence on companies and can strength their competitive position accordingly. Correspondingly, sustainability analysis is an integral part of the investment processes for our global Asset Management units. HSBC Global Asset Management already signed the 'United Nations Principles for Responsible Investment' (UNPRI) in June 2006 and has therefore undertaken to take environmental, social and governance (ESG) criteria into consideration when making investment decisions. By signing the Montréal Pledge in 2015, HSBC Global Asset Management has undertaken to report the carbon intensity of the portfolios.

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

Our global asset management units also take exclusionary criteria into consideration if required. For example, companies associated with anti-personnel landmines and cluster munitions have been avoided since 2010, using the services of well-known external organisations alongside our own due diligence checks. Our guideline in respect of passive investment products is also reviewed continually and all exchange traded funds (EFT) and the associated indices we offer are subjected to controversial weapon-screening in the meantime in order to avoid the financing of weapons of mass destruction.

Sustainability with respect to lending

We basically examine all loan commitments and applications with respect to sustainability risk. Since 2008 we have been applying a standardised world-wide Sustainability Risk Rating which provides for regulations for certain industries such as agricultural commodities, mining and metal, chemicals, energy, defence, forestry and water. The HSBC Sustainability Risk Policies and their implementation are examined regularly and updated if required.

Furthermore, we have undertaken to observe the Equator Principles (EP), which serve as international standards for the management of social and ecological risk in project financing. The optional rules comprise ten criteria based on the ecological and social standards applied by World Bank and the International Finance Corporation (IFC) and are taken into consideration for project volumes of USD10million upwards. We offer our employees intensive and systematic training and advanced training relating to the assessment of sustainability risk. Special sustainability risk managers monitor the observance of these processes.

Climate business

Apart from taking sustainability aspects into consideration in our lending business, sustainability is also playing an increasingly greater role in our capital market activities. The Green Bonds segment is becoming more and more significant for the public sector, corporates and institutional investors as investors very often no longer only weigh up their investment decisions against pure risk-return criteria, but also take social and environmental criteria into consideration. HSBC takes on a leading role in this segment and has already acted as lead manager on the market for a large number of Green Bond transactions – including those for the state of NRW. Furthermore, HSBC is represented in numerous industry associations, is founder member of the ICMA Green Bond Principles Executive Committee and advises institutions world-wide in order to develop the market segment for sustainable bond issues substantially further.

Reducing global CO_2 emissions is an important challenge for society. We want to develop strategies and show opportunities for accompanying the change to a CO_2-free economy together with our clients. With the HSBC Climate Change Center of Excellence, we also have a team of specialists that offers the best analysis on climate change and its impact on economies, industries and sectors. It was awarded first place by the Thomson Reuters Extel Survey in the area of 'Climate Change Research' for the fourth time in succession in 2016.

In March 2016 HSBC was given the approval to cooperate with the United Nations Green Climate Fund – a climate fund that provides funding for climate projects in emerging markets. Accreditation is preceded by a strict examination of the environmental and social standards of the institutions involved in these projects.

Ecological responsibility

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

We also use sources of renewable energy for our power supply, wherever possible, and use only green power at our head office. The environmentally friendly disposal of old electronic equipment and the recycling of reusable materials as well as the exclusive use of FSC-certified paper also contribute to saving resources. We also look for solutions that our clients can use digitally and offer them the use of an electronic post box for their account statements.

As part of the global five-year project partnership 'HSBC Water Programme', our employees organise local water days, getting involved in the 'FreshWater Watch' global research project run by the non-government organisation Earthwatch, and thus gaining a greater understanding of the relevance of the sustainable use of global water resources.

Social responsibility

Alongside economic and environmental responsibility, social responsibility is the third pillar of our integrated corporate sustainability strategy. HSBC Trinkaus & Burkhardt offers its staff numerous voluntary social benefits. In order to support the reconciliation of work and family obligations, we work with flexible working models and a family service which helps, for example, in finding external care for children or elderly relatives and offers life situation coaching. The offer for employees with families is rounded off by two company kindergarten facilities.

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

The Bank has been involved since 2008 as one of the main sponsors in the youth welfare centre 'Die Arche e.V.' in the Düsseldorf suburb of Wersten. 'Die Arche' is supported by our employees who help with the organisation of homework supervision, parties and excursions, one-off campaigns and with donations in kind.

Our social commitment is aimed primarily at giving young people a perspective. To focus our efforts in this area, we set up the charitable association HSBC Trinkaus Jugend & Bildung e. V. located in Düsseldorf in 2014. The statutory purpose of the association is to promote young people, education and international understanding. This purpose is achieved among other things by acquiring the necessary funds in the form of voluntary donations as well as the personal deployment of association members and employees of our Bank. The association's initial initiative is the 'd.eu.tsch' grant programme, which is aimed at supporting university graduates from southern Europe in entering professional life in Germany. The programme was already carried out successfully for the second time in 2016.

To mark the 150th anniversary of HSBC in 2015, HSBC decided to make an additional major donation to charitable associations world-wide. With an overall amount of USD150million world-wide, HSBC would like to support the valuable work the organisations carry out for society – also in Germany – for a period of three years. After an internal vote among the staff, three topics were identified – education and youth, environmental and nature conservation as well as medicine and research – and nationally operating organisations selected. In Germany we are using this donation to support the work of 'Die Arche e.V.', 'Deutsches Kinderhilfswerk e.V.', 'Deutscher Kinderschutzbund e.V.', 'WWF Germany' and 'DKMS' (formerly German 'Deutsche Knochenmarkspenderdatei').

Reporting

Once a year, the HSBC Group publishes its entire sustainability activities as part of the Strategic Report together with the Annual Report of the HSBC Group under www.hsbc.com. The Bank has made a voluntary commitment to the following initiatives:

- Carbon Disclosure Project
- Diversity Charter
- Green Bond Principles
- Institutional Investors Group on Climate Change
- UN Environmental Programme Finance Initiative
- UN Global Compact
- UN Principles for Sustainable Insurance
- UN Principles for Responsible Investment

Staff

Number of employees and persons receiving pensions

We had a total of 2,832 employees at the end of 2016, compared to 2,793 at the end of the previous year. This represents an increase of 1.4 %. At the end of 2016 we were also paying retirement, widow's and orphan's pensions to 582 recipients, compared to 576 at the end of 2015.

Training activities

There are currently 28 trainees and dual students in our Group, of which 16 highly motivated trainees are working towards professional office management qualifications within the Bank. Parallel to their two-year professional training, three of the office management trainees are attending a Bachelor of Arts study course in 'Business Administration' at the FOM University of Applied Science.

The Group is also supporting twelve dual students during their studies to gain a Bachelor of Arts degree in 'Banking & Finance'. The practical dual study course is also held at the FOM University of Applied Science.

We are proud to report that a total of nine (former) trainees in the HSBC Trinkaus & Burkhardt Group successfully completed their training in 2016. Thanks to the partly very good results our trainees achieved in this year's final examinations, we have now received an award from the Düsseldorf Chamber of Commerce and Industry for the excellent services we provide in our professional training for the tenth year in succession.

Advanced training

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

We pay particular attention to training, promoting and propagating our senior management members through individual development programmes and coaching in their special management functions.

We also still give high priority within the scope of our personnel development to promoting Bachelor and Master occupational study courses as well as selected specialised training courses. The Frankfurt School of Finance & Management, Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA), the CFA-Institute as well as specialist providers, independent trainers and universities have been our competent partners for these training measures for many years. For the first time since 2016 we have been offering our employees in cooperation with the well-known US Association of Certified Anti-Money Laundering Specialists certification of the same name as anti-money laundering specialists. A broad range of PC and IT seminars as well as foreign language courses (also in preparation for secondments abroad) rounds off our advanced training activities.

Compensation Report

Basic features of the compensation system

As a credit institution, the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) issued by the Federal Ministry of Finance apply above all for the HSBC Trinkaus & Burkhardt Group alongside the provisions of the German Stock Corporation Act and the recommendations of the German Corporate Governance Code. In accordance with section 17 of the Remuneration Ordinance for Institutions (InstitutsVergVO) in the version of 16 December 2013, the Bank is to be classified as a major institution since 2014. As the Bank provides securities and related services, the institution must also observe the compensation law requirements of BT 8 of BaFin Circular 4/2010 (WA) regarding the Minimum Requirements for the Compliance Function (MaComp).

Observing the legal and regulatory requirements, the compensation policy is stipulated firstly by the Management Board and secondly by the Supervisory Board; the Compliance team is duly included in its preparation. The Remuneration Control Committee set up by the Supervisory Board for questions relating to compensation consists of five members of the Supervisory Board. At present these are the Chairman of the Supervisory Board, two employees' representatives as well as two representatives of the majority shareholder.

Four committee meetings were held in 2016 which were also attended by the remuneration officer to be appointed in accordance with section 23 of the Remuneration Ordinance for Institutions (InstitutsVergVO) alongside the members of the Management Board. The guidelines of the remuneration policy, and here in particular the adequate structuring of the remuneration systems and their parameters, were discussed regularly with the company's Management Board members at the meetings. With regard to the amount of the fixed salary element and variable compensation component, use was also made of external advisory services primarily to guarantee that the structure of the compensation system is in line with market conditions and competitive and that the regulatory provisions are complied with.

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

The variable compensation component bears an appropriate ratio to the fixed salary element, whereby the upper limit of twice the fixed salary component resolved by the Annual General Meeting on 3 June 2014 observing the provisions of section 6 para. 1 of the Remuneration Ordinance for Institutions (InstitutsVergVO) as well as section 25a para. 5 German Banking Act (KWG) may not be exceeded.

As a major institution, the Bank has identified those persons whose activities have a substantial influence on the Bank's overall risk profile (Material Risk Takers) pursuant to section 18 para. 2 Remuneration Ordinance for Institutions (InstitutsVergVO). Special compensation provisions apply for these persons in accordance with section 18 para. 1 in conjunction with section 20 Remuneration Ordinance for Institutions (InstitutsVergVO), which have been implemented in a separate 'Guideline for Material Risk Takers' and have an impact on the payment of the variable compensation. The rules applicable for the Material Risk Takers, which affect both the Management Board as well as the employees identified accordingly, are therefore presented below in a separate section.

If parts of the variable compensation are not paid out to the Management Board members or employees until the following years, these compensation components are subject to standardised and formalised malus regulations applicable throughout the Group. Accordingly, this variable compensation can be withheld in full or in part in particular if the earnings contribution originally acknowledged turns out to be not sustainable or the recipient's conduct is considered to be questionable in hindsight. The Bank is also entitled not to pay the cash component or transfer the shares of HSBC Holdings plc in full or in part if there is no adequate capitalisation at the time of payment or if the responsible supervisory authority requires this.

Furthermore, 'consequence management' regulates the process of dealing with infringements against statutory provisions, HSBC Group guidelines as well as general behavioural principles in working life that are to be observed by Management Board members and employees. Non-observance can lead among other things to the reduction or loss of bonuses.

Compensation of the Executive and Supervisory Bodies

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

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

The extent of the fixed salary element as well as the annual variable compensation component for members of the Management Board is determined by the Supervisory Board in a formalised and transparent process which is prepared and monitored by the Remuneration Control Committee.

To guarantee the risk orientation of the compensation, the variable compensation component is paid partly in cash and partly in the form of a (provisional) allocation of shares of HSBC Holdings plc. The share of the variable compensation component is based firstly on the provisions of the German Banking Act (KWG) and the Remuneration Ordinance for Institutions (InstitutsVergVO) and secondly on the HSBC Group's provisions applicable throughout the Group.

Pursuant to section 8 of the Remuneration Ordinance for Institutions (InstitutsVergVO) in conjunction with delegated regulation (EU) no. 604/2014, all Management Board members are to be classified as Material Risk Takers. All Management Board members of the HSBC Group were also classified as 'Group Material Risk Takers', three of whom were classified as 'Risk Manager Material Risk Takers' at the same time.

In addition, one Management Board member was classified by the HSBC Group as Identified Staff (Alternative Investment Funds Manager, AIFM), which means that parts of the variable compensation in instruments for this member depend on the performance of so-called notional AIF units (fund units).

Please see the section 'Special rules for Material Risk Takers' for the respective requirements for the determination and payment of variable compensation.

Information on the extent and composition of the payments made to the members of the Management Board and Supervisory Board:
In accordance with the resolution passed by the Annual General Meeting on 5 June 2012, the information pursuant to section 314 para. 1 no. 6a sentence 5 to 8 German Commercial Code (HGB) relating to the personalised remuneration details of the members of the Management Board is not to be disclosed.

At €4,135.1thousand, the total fixed compensation for all members of the Management Board for 2016 was slightly lower than the previous year (€4,341.6thousand), taking into account the changes to the composition of the Management Board. The variable remuneration component amounted to €4,330.0thousand (2015: €4,431.4thousand). All members of the Management Board were assigned shares in the amount of €2,165.0thousand (2015: €2,215.7thousand) and cash in the amount of €2,165.0thousand (2015: €2,215.7thousand) for the 2016 financial year. The variable share of the Management Board remuneration for the 2016 financial year includes a long-term remuneration component of €2,598.0thousand (2015: €2,658.8thousand), of which €1,299.0thousand (2015: €1,329.4thousand) is attributable to variable remuneration paid in cash and €1,299.0thousand (2015: €1,329.4thousand) is attributable to variable remuneration in the form of shares of HSBC Holdings plc or notional AIF units (fund units).

Other compensation in the amount of €83.4thousand (2015: €75.7thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually. It is not performance based.

Provisions totalling €14.0million (2015: €11.8million) have been created to cover pension obligations to the members of the Management Board and their surviving dependants according to IFRS. €0.8million (2015: €1.1million) was recognised in the income statement in the financial year.

Severance payments for members of the Management Board and Material Risk Takers in the amount of €0.5million (2015: €5.0million) were granted in 2016.

The compensation for members of the Supervisory Board is governed in the Articles of Association, according to which each Supervisory Board member receives a fixed salary of €50,000. The Chairman receives two-and-a-half times and the Deputy Chairman double this salary. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned compensation of a Supervisory Board member, provided the respective committee has met at least once in the financial year. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of the Supervisory Board amounted to €1,238,971.92 (2015: €1,188,750.00) for the 2016 financial year. The members of the Advisory Board received remuneration totalling €420,037.50 (2015: €440,550.00). Furthermore, fees were paid to one (2015: two) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled €119,000.00 (2015: €157,675.00). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG as the legal predecessors of HSBC Trinkaus & Burkhardt AG and their surviving dependants, as well as former members of the Management Board of Trinkaus & Burkhardt AG totalled €5.2million (2015: €8.9million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €49.8million (2015: €48.7million).

No Management Board member acquired shares of HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. No rent guarantees or loans were granted to members of the Management Board in the financial year. Two rent guarantees amounting to €28.6thousand as well as the overdraft facility amounting to €82.6thousand from the previous year were repaid in the financial year. As at the balance sheet date, one member of the Supervisory Board was utilising a current account loan amounting to €50.0thousand with an interest rate of 4.8 % (2015: no members).

Contingent liabilities with respect to third parties in favour of members of executive and supervisory bodies existed only within the scope of the form presented in the Note 'Letter of comfort'.

Employee compensation

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

The employee compensation system is stipulated by the Management Board with the approval of the Remuneration Control Committee. The corresponding rules apply uniformly for all business divisions and subsidiaries. With regard to Internationale Kapitalanlagegesellschaft mbH, it is to be taken into consideration that it also has to comply with the existing special provisions of the AIFM guideline.

Employee compensation is regulated by the collective wage agreements for the private banking industry and the public sector banks for tariff employees.

Individual employees who show particularly positive conduct and therefore put HSBC Germany's values into practice and promote them in an outstanding way and / or represent an outstanding example for other employees are to be rewarded by one-off voluntary special payments ('positive adjustments'). The positive adjustments are stipulated by the Management Board based on justified proposals.

In addition to a fixed salary, which is reviewed annually, non-tariff employees receive performance and conduct-related variable compensation. The amount of the annual variable compensation is determined in accordance with the principles and criteria defined in the 'Guideline for Determining the Overall Amount of Variable Compensation' in a formalised and comprehensive process. According to the provisions of the rules of procedure for the Supervisory Board, the fixed and variable compensation for the Bank's top managers reporting directly to the Management Board, who are among the 15 highest-paid employees of the HSBC Trinkaus & Burkhardt Group, is determined with the approval of the Remuneration Control Committee.

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

Observing the provisions of BT 8 'Minimum Requirements for the Compliance Function' (MaComp) and in keeping with the principles of the HSBC Group regarding the payment of variable compensation, it is paid entirely in cash or partly in cash and partly as a (provisional) allocation of shares of HSBC holdings plc. It is envisaged with respect to the variable compensation for the 2016 financial year that it will be paid entirely in cash in February / March 2017 up to a euro equivalent of USD75,000. If this amount is exceeded, between 10 % and 50 % of the entire variable compensation will be paid provisionally in shares of HSBC Holdings plc depending on the amount on the one hand, and in cash on the other. The proportionate cash component will be paid in March 2017 and a third of the shares of HSBC Holdings plc will be transferred in each of 2018, 2019 and 2020.

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

The rules for the determination and payment of variable compensation for Material Risk Takers are presented separately in the following section.

Special rules for Material Risk Takers

The variable remuneration for the Material Risk Takers (both Management Board members and employees) is determined in accordance with the principles and criteria defined in the 'Guideline for Determining the Overall Amount of Variable Compensation' and in the 'Performance Management Guidelines' in a formalised and comprehensible process which, in addition to taking the business performance of the company and the division into consideration, arrives at an overall assessment with respect to the individual performance – based on quantitative and qualitative criteria – as well as the rule-consistent conduct of the Management Board members and employees. To introduce formal performance management and make a connection between the performance and conduct of the Material Risk Takers (as well as of relevant persons pursuant to BT 8 MaComp and Front Office employees), an agreement has been concluded with the Employee's Council with regard to section 14 German Remuneration Ordinance for Institutions (InstitutsVergVO) (as well as BT 8 MaComp). The results of the assessments (ratings) therefore have a direct impact on the determination of the variable compensation for these groups of persons.

By way of deviation from the general provisions relating to variable compensation set out above, provided it amounts to at least €50,000, half of the entire variable compensation of the Material Risk Takers consists of a cash payment and half of a (provisional) allocation of shares of HSBC Holdings plc in principle in accordance with the requirements of the German Remuneration Ordinance for Institutions (InstitutsVergVO). Deviating from this rule, if these persons are classified as AIFM Identified Staff, 40 % of the deferred share of instruments is allocated in shares of HSBC Holdings plc and 10 % invested in notional AIF units (fund units).

60 % of the variable compensation will be transferred in the 2017 financial year and 40 %, of which a third in each case, in the next three financial years, in other words from 2018 to 2020.

Material Risk Takers who are members of the Management Board or the Bank's top management level reporting directly to the Management Board or Managing Directors of a subsidiary classified as a 'main business division' or who were classified by the HSBC Group as 'Group Material Risk Takers' and whose variable compensation exceeds USD750,000, will receive 40 % of the compensation in the 2017 financial year. The remaining shares will be transferred in each of the next three financial years, in other words from 2018 to 2020.

For Group Material Risk Takers classified as so-called 'Risk Manager Material Risk Takers' at the same time, the deferred variable compensation will be transferred over a period of at least five years, in equal parts in each case.

A further holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc and the notional AIF units (fund units) for all (Group) Material Risk Takers.

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

The Bank reserves the right to claim back the variable compensation of Group Material Risk Takers within seven years of it being provisionally granted in full or in part if the earnings contribution or conduct of the Group Material Risk Taker concerned is considered in hindsight to be questionable in the above sense.

Quantitative information on the compensation

The table below gives a summary of the most important quantitative information relating to the compensation for the Management Board and the Material Risk Takers based on Section 16 Ordinance for Institutions (InstitutsVergVO) and on Art. 450 para. 2 of Regulation (EU) No 575/2013:

31.12.2016	**Number of beneficiaries of fixed compensation**	**Total fixed compensation (€m)**	**Number of beneficiaries of variable compensation**	**Total variable compensation for the 2016 financial year (€m)**	**Of which total variable compensation paid in cash (€m)**	**Of which total variable compensation paid in instruments* (€m)**
Management Board	5	4.4	4	4.3	2.17	2.17
Material Risk Takers	332	48.1	299	28.1	15.9	12.2

31.12.2015	**Number of beneficiaries of fixed compensation**	**Total fixed compensation (€m)**	**Number of beneficiaries of variable compensation**	**Total variable compensation for the 2015 financial year (€m)**	**Of which total variable compensation paid in cash (€m)**	**Of which total variable compensation paid in instruments* (€m)**
Management Board	5	4.3	5	4.4	2.2	2.2
Material Risk Takers	332	48.7	302	30.3	16.7	13.6

31.12.2016	**Total outstanding deferred compensation (€m)**	**Of which already earned (€m)**	**Of which still to be earned (€m)**	**Deferrals granted in 2016 (€m)**	**Deferrals paid out/ allocated in 2016 (€m)**	**Total amount of deferral reductions (€m)**
Management Board	9.1	0.0	9.1	2.6	4.5	0.0
Material Risk Takers	33.9	0.0	33.9	11.6	8.7	0.0

31.12.2015	**Total outstanding deferred compensation (€m)**	**Of which already earned (€m)**	**Of which still to be earned (€m)**	**Deferrals granted in 2015 (€m)**	**Deferrals paid out/ allocated in 2015 (€m)**	**Total amount of deferral reductions (€m)**
Management Board	9.3	0.0	9.3	3.0	3.5	0.0
Material Risk Takers	32.8	0.0	32.8	12.9	7.6	0.0

* Shares of HSBC Holdings plc or 'notional AIF units'

No payments at the start of a contract of employment were made in 2016 as in the previous year.

31.12.2016	Severance payments made in 2016 (€m)	Number of beneficiaries of the severance payments made	Severance payments granted in 2016 (€m)	Number of beneficiaries of the severance payments granted
Management Board/Material Risk Takers*	1.3	13	0.5	5

* for reasons of confidentiality, payments at the end of the employment contract have not been reported for the Group as a whole owing to the small number of employees involved.

31.12.2015	Severance payments made in 2015 (€m)	Number of beneficiaries of the severance payments made	Severance payments granted in 2015 (€m)	Number of beneficiaries of the severance payments granted
Management Board/Material Risk Takers*	4.1	3	5.0	13

* for reasons of confidentiality, payments at the end of the employment contract have not been reported for the Group as a whole owing to the small number of employees involved.

5 persons (2015: 5 persons) were provisionally granted compensation between €1.0million and €1.5million, 2 persons (2015: 4 persons) between €1.5million and €2.0million, 1 person (2014: 1 person) between €2.0million and €2.5million and 1 person (2015: 1 person) between €2.5million and €3.0million in respect of the 2016 financial year during the period under report.

The overall amount of fixed compensation paid in the HSBC Trinkaus & Burkhardt Group in 2016, including the fixed compensation paid for the Management Board, came to €205.5million (2015: €199.9million). 1,671 persons (2015: 1,609 persons) were promised variable compensation in 2017 for the 2016 financial year totalling €56.0million (2015: €58.2million). This figure includes the variable compensation for the Management Board. The overall amount is split between the individual divisions as follows:

31.12.2016	Total fixed compensation (€m)	Total variable compensation for the 2016 financial year (€m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	117.7	42.2	940
Private Banking and Asset Management	21.4	5.2	162
Functions and HTS	66.4	8.6	569

31.12.2015	Total fixed compensation (€m)	Total variable compensation for the 2015 financial year (€m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	114.4	43.0	915
Private Banking and Asset Management	22.3	6.1	162
Functions and HTS	63.2	9.1	532

Thanks

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

Corporate Governance Statement

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the 'Government Commission for the German Corporate Governance Code' and produced a corporate governance report and made both documents permanently available to the public on the HSBC Trinkaus &Burkhardt AG homepage (Internet link: http://www.about.hsbc.de/de-de/investor-relations/corporate-governance).

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2016	31.12.2015	Change	
				in €m	in %
Cash reserve	(20)	1,107.3	690.2	417.1	60.4
Loans and advances to banks	(6, 21)	1,255.9	1,186.3	69.6	5.9
Loans and advances to customers	(6, 22)	8,457.9	7,848.0	609.9	7.8
Trading assets	(6, 24)	6,561.9	5,930.5	631.4	10.6
Financial assets	(6, 25)	5,351.0	5,688.6	–337.6	–5.9
Share of profit in associates		0.0	0.5	–0.5	–100.0
Property, plant and equipment	(10, 26)	105.3	104.2	1.1	1.1
Intangible assets	(11, 26)	12.5	9.2	3.3	35.9
Taxation recoverable	(15, 27)	50.4	32.0	18.4	57.5
of which current		14.0	6.9	7.1	>100
of which deferred		36.4	25.1	11.3	45.0
Other assets	(28)	182.6	181.0	1.6	0.9
Total assets		**23,084.8**	**21,670.5**	**1,414.3**	**6.5**

Liabilities in €m	(Note)	31.12.2016	31.12.2015	Change	
				in €m	in %
Deposits by banks	(6, 31)	1,786.2	752.4	1,033.8	>100
Customer accounts	(6, 32)	13,623.3	12,928.8	694.5	5.4
Certificated liabilities	(33)	45.4	10.0	35.4	>100
Trading liabilities	(6, 34)	4,499.8	5,148.7	–648.9	–12.6
Provisions	(8, 14, 35)	173.2	138.6	34.6	25.0
Taxation	(15, 36)	43.9	35.0	8.9	25.4
of which current		43.9	35.0	8.9	25.4
of which deferred		0.0	0.0	0.0	–
Other liabilities	(37)	235.3	249.0	–13.7	–5.5
Subordinated capital	(38)	437.7	458.2	–20.5	–4.5
Shareholders' equity	(39)	2,240.0	1,949.8	290.2	14.9
Share capital	(39)	91.4	91.4	0.0	0.0
Capital reserve		720.9	720.9	0.0	0.0
Additional Tier 1 capital	(39)	235.0	0.0	235.0	–
Retained earnings*		1,170.8	1,100.6	70.2	6.4
Valuation reserve for financial instruments	(39)	115.6	120.0	–4.4	–3.7
Valuation reserve for the remeasurement of the net pension obligation	(39)	–97.4	–85.1	–12.3	14.5
Valuation reserve from currency conversion	(3)	3.7	2.0	1.7	85.0
Total equity and liabilities		**23,084.8**	**21,670.5**	**1,414.3**	**6.5**

* Consolidated profit available for distribution was presented in aggregate with retained earnings in the financial year. The prior-year figures have been adjusted accordingly.

Consolidated Statement of Comprehensive Income

Consolidated Income Statement

Income statement in €m	(Note)	2016	2015	Change	
				in €m	in %
Interest income		296.8	273.9	22.9	8.4
Interest expense		85.4	72.2	13.2	18.3
Net interest income*	(17, 40)	211.4	201.7	9.7	4.8
Net loan impairment and other credit risk provisions	(8, 41)	4.4	0.2	4.2	> 100.0
Share of profit in associates		0.0	0.1	–0.1	–100.0
Fee income*		669.1	642.3	26.8	4.2
Fee expenses*		194.4	201.1	–6.7	–3.3
Net fee income	(17, 42)	474.7	441.2	33.5	7.6
Net trading income*	(17, 43)	78.7	75.1	3.6	4.8
Administrative expenses	(44)	567.9	530.4	37.5	7.1
Income from financial assets	(17, 45)	24.9	15.0	9.9	66.0
Net other income	(17, 46)	12.5	14.9	–2.4	–16.1
Pre-tax profit		229.9	217.4	12.5	5.7
Tax expenses	(15, 47)	74.4	65.3	9.1	13.9
Net profit		**155.5**	**152.1**	**3.4**	**2.2**

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

Earnings per share in €	(Note)	31.12.2016	31.12.2015
Undiluted	(49)	4.54	4.46
Diluted	(49)	4.54	4.46
Average number of shares in circulation in million	(49)	34.1	34.1

Reconciliation from net income to comprehensive income

in €m	(Note)	2016	2015
Net profit		155.5	152.1
Gains/losses after tax reclassified in the income statement		–2.7	–47.6
of which from financial instruments	(39)	–4.4	–47.4
of which from currency conversion	(3)	1.7	–0.2
Gains/losses after tax not reclassified in the income statement		–12.3	6.9
of which from the remeasurement of the net pension obligation	(35)	–12.3	6.9
Other changes		–15.0	–40.7
Comprehensive income		**140.5**	**111.4**

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	Valuation reserve for financial instru-ments	Valuation reserve for the remeas-urement of the net pension	Valuation reserve from currency conversion	Consoli-dated share-holders' equity
(Note)	**(39)**	**(39)**	**(39)**	**(39)**	**(39)**	**(39)**	**(39)**	
As at 31.12.2014	**91.4**	**720.9**	**0.0**	**1,018.7**	**167.4**	**−92.0**	**2.2**	**1,908.6**
Dividend distribution				−70.3				−70.3
Addition from net profit for the year				152.1				152.1
Capital increase								0.0
Other income for the period					−47.4	6.9	−0.2	−40.7
Other changes				0.1				0.1
As at 31.12.2015	**91.4**	**720.9**	**0.0**	**1,100.6**	**120.0**	**−85.1**	**2.0**	**1,949.8**
Dividend distribution				−85.2				−85.2
Addition from net profit for the year				155.5				155.5
Capital increase			235.0					235.0
Other income for the period					−4.4	−12.3	1.7	−15.0
Other changes				−0.1				−0.1
As at 31.12.2016	**91.4**	**720.9**	**235.0**	**1,170.8**	**115.6**	**−97.4**	**3.7**	**2,240.0**

* inc. consolidated profit available for distribution.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	(Note)	2016	2015
Net profit		155.5	152.1
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		83.2	64.6
Net profit from the sale of investments and property, plant and equipment		−20.3	−27.8
Other adjustments (net)		−123.0	−67.2
Sub-total		95.4	121.7
Changes to assets and liabilities from operating activities after adjustment for non-cash components			
Loans and advances to banks	(21)	−69.4	308.3
Loans and advances to customers	(22)	−604.8	−1,337.4
Securities held for trading	(24, 34)	−1,280.4	1,121.5
Other assets		322.0	100.8
Liabilities	(31, 32, 33)	1,763.6	−288.0
Other liabilities		−48.2	21.6
Total adjustments		82.8	−73.2
Interest receipts		293.8	257.6
Dividend receipts		3.0	5.8
Interest payments		−85.5	−83.3
Income taxes paid		−78.7	−73.2
Cash flow from operating activities		**310.8**	**155.4**
Proceeds from the sale of			
financial investments		5.9	23.7
Property, plant and equipment		1.9	1.4
Payments for the acquisition of			
financial investments		0.0	−5.4
Property, plant and equipment		−31.1	−31.0
Cash flow from investing activities		**−23.3**	**−11.3**
Dividends paid to HSBC Trinkaus & Burkhardt AG shareholders		−85.2	−70.3
Adjustments to subordinated capital		−20.2	0.0
Adjustments to Additional Tier 1 capital	(38)	235.0	0.0
Net cash provided by the capital increase		0.0	0.0
Cash flow from financing activities		**129.6**	**−70.3**
Cash and cash equivalents at end of prior period	**(20)**	**690.2**	**616.4**
Cash flow from operating activities		310.8	155.4
Cash flow from investing activities		−23.3	−11.3
Cash flow from financing activities		129.6	−70.3
Cash and cash equivalents at end of period	**(20)**	**1,107.3**	**690.2**

Notes to the Consolidated Financial Statements

Fundamental accounting policies

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

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2016 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration. The Group Management Report that must also be prepared in accordance with section 315a HGB in conjunction with section 315 HGB also includes the report on the opportunities and risks associated with future development (Risk Report). The information contained in the Risk Report complements the details given about the nature and extent of risks arising from financial instruments in the Notes.

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

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

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

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

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

At the end of 2016, HSBC Holdings plc had an indirect interest of 80.7 % (2015: 80.7 %) 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 published consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Accounting, valuation and consolidation methods

1 Scope of Consolidation

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

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

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

The scope of consolidation in the financial year remained unchanged from the previous year with the following exception. The incorporation of HSBC Global Asset Management (Switzerland) AG in the consolidated financial statements of HSBC Trinkaus & Burkhardt is of no material significance to the presentation of the net assets, financial position and results of operations of the Group. For this reason, the company that was accounted for at equity in the previous year was removed from the group of consolidated companies as at 31 January 2016 and is therefore included as an investment in the consolidated financial statements.

A detailed list of the companies included in the consolidated financial statements can be found in the Note 'Participating Interests'. As in the previous year, we have also fully consolidated two special funds and one closed-end real estate fund.

2 Consolidation Principles

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

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

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

3 Foreign Currency Translation

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

Forward exchange transactions are measured at fair value. The measurement parameter is the relevant forward rate on the balance sheet date. Spot foreign exchange trades, and assets and liabilities denominated in foreign currencies, are translated at the official reference rate of the European Central Bank or at other suitable spot rates of the last trading day of the year.

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

Translation differences without effect on the income statement amounted to €3.7million (2015: €2.0million) and relate to a closed-end real estate fund.

4 Business Combinations

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

The extensive recognition and measurement provisions of IFRS 3 for tangible and intangible assets purchased, as well as for contingent liabilities and other items on the balance sheet, are applied. This also includes assets that did not qualify previously for recognition in the 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 (impairment test) at least once a year or as required on an ad hoc basis in accordance with IAS 36 (cf. Notes 'Intangible Assets' and 'Investment Overview').

5 Non-Current Assets and Disposal Groups Held for Sale and Discontinued Operations

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

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

6 Financial Instruments

Recognition

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

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

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

Reporting

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

Measurement approach	Measurement classes (IFRS) 7 / Balance sheet items	Measurement categories (IAS 39)
Measurement at amortised cost	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
	Subordinated capital	Other liabilities
	Contingent liabilities on guarantees and indemnity agreements	
	Irrevocable loan commitments	
Measurement at fair value	Financial assets	Available-for-sale
	Trading assets / liabilities	Held-for-trading
Derivatives in hedging relationships	Trading assets / liabilities	

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

Measurement

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

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

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

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

(b) Held-to-maturity investments

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

(c) Loans and receivables

The 'loans and receivables' category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. The corresponding loans and receivables are measured at amortised cost. We report interest from the lending business in net interest income. Discounts and premiums are recorded within net interest income using the effective interest method. Impairments on loans and receivables are reported in net loan impairment provision.

(d) Financial assets available-for-sale

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

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

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

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

(e) Other liabilities

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

(f) Reclassification

The option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

(g) Financial guarantees and loan commitments

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

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

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

7 Hedge Accounting

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

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

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

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

8 Net Loan Impairment and Other Credit Risk Provisions

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

Net loan impairment and other credit risk provisions are offset against receivables on the assets side on the one hand and shown as credit risk provisions on the liabilities side on the other. Net loan impairment and other credit risk provisions differentiate between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower entity. To this effect, all borrowers are assigned a so-called customer risk rating (CRR) on the basis of a uniform, Group-wide 23-stage internal rating scale. The customer risk rating can be summarised in ten steps (CRR 1 – 10), whereas receivables that are in arrears and/or impaired are classified in CRR 9 and 10. The probability of default for each borrower can be derived from the customer risk rating. On this basis, the expected loss for the individual loan exposures is estimated taking into account collateral and other agreements. Net loan impairment provision is created for loan exposures with a high risk of default. In order to calculate these provisions, the future payments from the loan and if necessary from the realisation of security is estimated, so that the present value of these payments can be compared with the book value of the loan exposure. The net loan impairment provision thus created fully covers the shortfall calculated in this way. The borrower's country of domicile is also relevant.

In addition, write-downs/provisions are created on a collective basis. Provided there is no substantial objective evidence of impairment of individual assets or of individual impending losses, receivables and off-balance sheet transactions will be aggregated collectively into a group with comparable default risks (collective). Collective impairments are calculated as a product of the book value, the probability that the exposure will default within one year, the individual loss ratio and a factor that measures the delay in the flow of information. In the procedure for calculating collectively assessed impairments/provisions, probabilities of default are derived from internal rating procedures. Each of the internal loss ratios are validated against relevant market data.

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

9 Repurchase Agreements and Securities Lending Transactions

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

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet items 'loans and advances to banks' or 'loans and advances to customers'. Securities purchased under agreements to resell are not reported.

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

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

10 Property, Plant and Equipment

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

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

	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. An impairment loss is recognised in the amount in which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the two amounts of the fair value of the asset, less the cost to sell and value in use. At each balance sheet date, property, plant and equipment for which impairment was recognised in the past is examined to determine whether the impairment losses possibly have to be reversed.

11 Intangible Assets

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

Intangible assets also include the goodwill resulting from company acquisitions, which is attributable to a subsidiary as a cash generating unit that is assigned to the Global Banking & Markets segment. 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 or on an ad hoc basis as required. The impairment test is based on the recognised net income value method. The future expected surpluses from the most recent management planning are used and discounted by an interest rate that adequately reflects the risks involved, in order to calculate the so-called recoverable amount, which is comparable to the carrying amount of the goodwill. A recoverable amount that is less than the carrying amount is depreciated.

The earnings forecasts are determined on the basis of the management's financial plans that are drawn up for a five-year period. Earnings forecasts that extend beyond the five-year period are oriented on the level of earnings for the last years of the planning period.

The realisable amount generally reacts sensitively to the estimation of future earnings as well as the discount rate applied.

The assumptions on which the cash flow forecasts are based are subject to uncertainties. The estimation of future earnings not only takes into account the current business situation, but also an estimation of the future development of business operations, the relevant markets and the overall economic environment. The management's past experience is incorporated into the planning, and the opportunities and risks from the forecasts are weighed up. Despite a conservative management approach in assessing the earnings forecasts, the following circumstances could impact negatively on the earnings forecasts and therefore lead to an impairment of goodwill in the future:

- worse than expected performance of the securities markets
- worse than expected development of the macroeconomic environment
- changes to the regulatory environment and its implementation
- negative development of the competitive situation

The discount rate used of 5.4 % (2015: 7.7 %) includes a risk-free interest rate, a market risk premium and a factor for the systemic market risk (beta factor). All three components are based on external or HSBC Group data.

12 Leasing

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

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 2016, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.00 % (2015: 0.00 %) of the share capital.

14 Provisions

Provisions for pensions and similar obligations, for credit risks and uncertain liabilities are reported under provisions. Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure.

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. Net interest income from plan assets is offset against expected pension expenses in the income statement. Actual income excluding interest income from the plan assets, as well as actuarial gains and losses from the performance of the pensions are reported under shareholders' equity with no effect on the income statement after the deduction of deferred taxes.

Provisions for legal risks are created for legal disputes, where, following a thorough review of the circumstances of the individual case, type and extant of a possible claim and settlement, we conclude there is a probability of more than 50 % that the Bank will be called upon. Please see the Note 'Provisions' for information.

In case of material legal disputes and process risks, where it is unlikely the Bank will be called upon, but is not classified as unlikely, we carry out the instructions in the Note 'Contingent Liabilities and Other Obligations'.

15 Taxation Recoverable and Taxation

The accounting and measurement of tax expenses are in accordance with IAS 12. Current taxation recoverable and taxation are calculated in accordance with the tax rates applicable for each individual company and offset against the expected payment or compensation amount. Current taxation recoverable is offset against current taxation, provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred taxation recoverable and taxation are formed on temporary differences, by comparing the balance sheet valuations of the assets and liabilities with the valuations that are relevant for the taxation of the Group company in question. The deferred taxation continues to be calculated on the basis of the tax rates which, to the best of our current knowledge and based on existing and clearly expected tax legislation, will be used for the adjustment of the valuation methods. Deferred tax liabilities are created for temporary differences that result in a tax charge when reversed. Deferred tax assets are recognised, provided tax relief is expected at the point at which temporary differences are reversed, and if it is probable that they can be utilised. Deferred tax assets are only recognised for tax losses carried forward, if future utilisation can be assumed with sufficient probability. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable and deferred taxation will be adjusted accordingly.

Tax expenses or income are reported in the consolidated income statement in the tax expenses item. Depending on the treatment of the underlying circumstances, deferred income tax assets and liabilities are recognised and reversed either in the income statement in the tax expenses item or in the corresponding shareholders' equity with no effect on the income statement. Discounts are not taken into account.

Deferred taxation recoverable is offset against the deferred taxation, where a right to offset exists and the deferred tax assets and liabilities relate to tax expenses that are charged by the same tax authority on the same taxable entity. As a result of the consolidated tax-filing status that exists and a tax obligation that relates almost exclusively to the German tax authorities, taxation recoverable and taxation can be largely offset within the Group.

16 Share-Based Payments

In previous financial years, Group employees had the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The previous share option scheme is graduated according to different blocking periods (one, three and five years) and allows staff to save up to the equivalent of GBP 250 per month. In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The staff expenses (service costs) derived from this – apportioned to the respective blocking period (vesting period) – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (co-called acceleration of vesting).

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

In addition, the performance-related remuneration components for certain employees (Material Risk Takers) and the Management Board were, over a defined volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The performance-related components can be paid either in full in the following year or in different tranches over several years. Payment of these performance-related remuneration components in HSBC Holdings plc shares is made indirectly by a trustee on the basis of the cash funds transferred for this purpose by the HSBC Trinkaus & Burkhardt Group. This type of remuneration is reported as a cash-settled share-based payment transaction pursuant to IFRS 2.30 et seq. Upon performance of the services by the respective beneficiary, staff expenses are recognised already in full as an expense for the period, as these kinds of remuneration claim are generally non-forfeitable according to the Federal Labour Court (Bundesarbeitsgerichts – BAG).

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. Negative interest rates for financial instruments carried as assets are reported in interest expense and for financial instruments carried as liabilities in interest income.

The Bank recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement.

Fee income and expenses from securities transactions, the securities portfolio business, Asset Management, the foreign exchange business, Capital Financing, payments/documentary business, the lending business (e.g. structuring fees) and from other services are reported under net fee income. Fee income and expenses are recognised in the income statement at the time the service is performed.

All unrealised and realised trading gains are reported in net trading income. In addition to price gains/losses, this also includes interest and dividend income attributable to trading activities, the hedge result and the result from banking book derivatives.

18 Change in Accounting Policies

(a) For reporting periods presented

The accounting and valuation methods applied in preparing these consolidated financial statements are in line with those applied in the 2015 financial year, except with regard to the following:

Standards and interpretations, the amended version, the application of which is mandatory in the EU since 1 January 2016, were taken into account and did not have any material consequences for the consolidated financial statements of HSBC Trinkaus & Burkhardt.

Unlike the previous year, we offset fee expenses and income in connection with portfolio management services rendered outside the Group for special assets managed by the Bank in the 2016 financial year. This reduces fee expenses and income by €256.3million each in the previous year. This net presentation takes into account that the HSBC Trinkaus & Burkhardt Group has played the role of agent within the meaning of IAS 18 for the benefit of the special assets. The change in the presentation has no effect on net fee income, net profit and earnings per share. Overall, this has no material consequences for the presentation of the financial position and performance of the Group. The prior-year figures were adjusted accordingly.

The organisational responsibility for the interest-related business was reorganised in part with regard to the assignment of positions in the trading and banking books and applies fundamentally to financial assets and financial liabilities of all IAS 39 categories. As a result of the change in the Bank's internal management, the Bank reports interest from money market transactions (balance sheet management) in net interest income from this year onwards and no longer in net trading income. The prior-year figures were adjusted accordingly. The adjustment of the prior-year figures led to a €24.2million increase in net interest income and accordingly to a reduction of €24.2million in net trading income. The change in the presentation has no effect on net profit and earnings per share. Overall, this had no material consequences for the presentation of the financial position and performance of the Group.

(b) For future reporting periods

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial instruments' in July 2014. IFRS 9 deals with the recognition and measurement of financial instruments and replaces IAS 39. The new standard fundamentally changes the previous provisions for the classification and measurement of financial instruments, the reporting of impairments and hedge accounting. IFRS 9 has to be applied for financial years beginning on or after 1 January 2018.

Classification and measurement

The classification and measurement of financial instruments in accordance with IFRS 9 depends on which business model (hold, sell and hold and sell) the financial instruments are assigned to and how their cash flows are structured. The combination of these factors influences whether the assets are measured at amortised cost, at fair value through profit or loss or at fair value without effect on income. As a result, financial assets may be measured differently than in accordance with IAS 39. The Bank continues to focus on the process and systems-based implementation of the provisions. In conjunction with the classification and measurement of financial instruments, the Bank expects a slight increase in the assets measured at fair value through profit or loss.

Impairments

The new provisions for the reporting of impairments fundamentally change their reporting, since these standards not only require the recognition of incurred losses (incurred loss model) but losses already expected (expected loss model). The scope of recognition of expected losses depends on whether the default risk of financial assets has deteriorated substantially or not since their addition. The net loan impairment provision in case of first-time recognition is based on the loan defaults expected for the first twelve months. In the event of a significant deterioration and the default risk is not classified as low as at the reporting date, all losses expected as of this date shall be recognised over the entire term.

As a consequence of the new impairment provisions, the Bank expects higher net loan impairment provisions based on the expected loss model and increased volatility of the net loan impairment provisions relative to today's provisions.

Hedge accounting

The Bank has decided to exercise the IFRS voting right and to continue applying the IAS 39 rules for hedge accounting.

Transition period

The rules concerning classification and measurement, as well as impairment, shall be applied retrospectively at the date of initial application. Hence, there are no requirements to restate the reference periods. Owing to the uncertainties and possibilities of interpretation, it is currently not possible to reliably quantify the effects.

IFRS 15

IFRS 15, which comes into effect for financial years that start on or after 1 January 2018, specifies how and when income is recognised. IFRS replaces several other IFRS provisions and interpretations that currently determine the recognition of income and represents a single, five-step model based on principles that are applied to all customer agreements but have no impact on the recognition of income in connection with financial instruments within the scope of IFRS 9/IAS 39. The standard should be applied retrospectively. We do not anticipate any material effects from the adoption of the standard on the consolidated financial statements of HSBC Trinkaus & Burkhardt.

IFRS 16

The new accounting standard IFRS 16 on lease accounting was published in January 2016. Provided it is endorsed by the EU, IFRS 16 will be obligatory for financial years that start on or after 1 January 2019. The new standard replaces IAS 17 and therefore the associated interpretations. According to the new rules, the lessee in future will capitalise a right to use the leased asset and at the same time recognise a liability that represents its obligation to make the lease payments. Exemptions apply for lease agreements with a term of less than twelve months and low-value assets. Similar to the previous rules, the lessor is required to classify the lease agreements as financing or operating lease agreements and to recognise them accordingly. IFRS also includes rules on extended disclosures to the Notes and on sale-and-lease-back transactions. The impact on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

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

19 Material Events Occurring After the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2016	31.12.2015
Cash in hand	1.6	1.4
Balances held with central banks	1,105.7	688.8
Total	**1,107.3**	**690.2**

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

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

21 Loans and Advances to Banks

in €m	31.12.2016	31.12.2015
Current accounts	404.4	434.5
Money market transactions	21.7	503.2
of which overnight money	11.2	48.2
of which term deposits	10.5	455.0
Other receivables	167.1	126.6
Collateral items in the derivatives trading business	662.8	122.2
Total (before net loan impairment provision)	**1,256.0**	**1,186.5**
Net loan impairment provision for loans and advances	0.1	0.2
Total (net)	**1,255.9**	**1,186.3**

Loans and advances to banks also include deposits within the HSBC Group. Loans and advances to banks are reported after deduction of the net loan impairment provision.

22 Loans and Advances to Customers

in €m	31.12.2016	31.12.2015
Current accounts	1,303.2	1,563.7
Money market transactions	868.1	852.6
of which overnight money	166.2	163.0
of which term deposits	701.9	689.6
Loan accounts	5,650.2	4,905.0
Other receivables	575.7	455.3
Collateral items in the derivatives trading business	83.8	99.6
Total (before net loan impairment provision)	**8,481.0**	**7,876.2**
Net loan impairment provision for loans and advances	23.1	28.2
Total (net)	**8,457.9**	**7,848.0**

The increase in the number of loan accounts is due, in particular, to the corporate customer lending business and reflects the success of our growth strategy.

Loans and advances to customers are reported after deduction of the net loan impairment provision.

23 Net Loan Impairment Provision

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2016	2015	2016	2015	2016	2015
As at 01.01	**14.2**	**14.4**	**14.2**	**15.2**	**28.4**	**29.6**
Utilisation	6.8	0.3	0.0	0.0	6.8	0.3
Reversals	8.3	0.1	0.0	0.9	8.3	1.0
Additions	8.5	0.2	1.3	0.0	9.8	0.2
Direct write-offs	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation effects / transfers	0.1	0.0	0.0	–0.1	0.1	–0.1
As at 31.12	**7.7**	**14.2**	**15.5**	**14.2**	**23.2**	**28.4**

The individually assessed impairments exclusively relate to loans and advances to customers. Loans and advances to banks account for €0.1million (2015: €0.2million) of the collectively assessed impairments.

24 Trading Assets

in €m	31.12.2016	31.12.2015
Bonds and other fixed-income securities	1,534.8	1,725.2
of which:		
public-sector issuers	1,348.6	1,310.6
other issuers	186.2	414.6
of which:		
listed	1,534.8	1,725.2
unlisted	0.0	0.0
Equities and other non-fixed-income securities	1,161.5	1,161.9
of which:		
listed	1,138.2	1,130.6
unlisted	23.3	31.3
Tradable receivables	1,766.0	929.2
Positive market value of derivatives	2,099.3	2,113.1
of which:		
OTC derivatives	1,855.1	1,738.8
exchange-traded derivatives	244.2	374.3
Derivatives in hedging relationships	0.2	0.0
Derivatives held in the banking book	0.1	1.1
Total	**6,561.9**	**5,930.5**

Tradable receivables are recognised mainly as promissory note loans and purchased receivables. The sharp increase of €836.8million in tradable receivables was mainly as a result of the extended trade in promissory note loans.

25 Financial Assets

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

in €m	31.12.2016	31.12.2015
Bonds and other fixed-income securities	5,089.9	5,390.8
of which:		
public-sector issuers	3,006.9	3,185.6
other issuers	2,083.0	2,205.2
of which:		
listed	5,025.1	5,327.5
unlisted	64.8	63.3
Equities	0.0	0.0
Investment certificates	49.8	64.8
Promissory note loans	138.9	149.6
Investments	72.4	83.4
Total	**5,351.0**	**5,688.6**

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

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

in €m	31.12.2016	31.12.2015
Bonds and other fixed-income securities	89.0	82.7
Equities	0.0	0.0
Investment certificates	1.5	3.5
Promissory note loans	29.0	22.8
Investments	39.0	44.9
Total	**158.5**	**153.9**

26 Investment Overview

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2016	98.9	113.1	212.0	102.0
Additions	5.2	13.1	18.3	5.1
Disposals	0.0	12.0	12.0	0.0
Acquisition costs as at 31.12.2016	104.1	114.2	218.3	107.1
Depreciation as at 01.01.2016	37.4	70.4	107.8	92.8
Scheduled depreciation	1.4	13.7	15.1	1.8
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	0.0	9.9	9.9	0.0
Depreciation as at 31.12.2016	38.8	74.2	113.0	94.6
Carrying amount as at 31.12.2016	**65.3**	**40.0**	**105.3**	**12.5**
Carrying amount as at 31.12.2015	**61.5**	**42.7**	**104.2**	**9.2**

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets*
Acquisition costs as at 01.01.2015	96.2	100.6	196.8	103.3
Additions	2.7	21.5	24.2	5.6
Disposals*	0.0	9.0	9.0	6.9
Acquisition costs as at 31.12.2015	98.9	113.1	212.0	102.0
Depreciation as at 01.01.2015	35.9	63.3	99.2	92.7
Scheduled depreciation	1.5	12.9	14.4	5.6
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals*	0.0	5.8	5.8	5.5
Depreciation as at 31.12.2015*	37.4	70.4	107.8	92.8
Carrying amount as at 31.12.2015	**61.5**	**42.7**	**104.2**	**9.2**
Carrying amount as at 31.12.2014	**60.3**	**37.3**	**97.6**	**10.6**

* The depreciation of acquisition costs and the depreciation of reversals were amended. This did not impact on the balance sheet or on the income statement.

Intangible assets include goodwill of €4.4million (2015: €4.4million) that is attributable to a subsidiary (cash generating unit) allocated to the Global Banking & Markets segment, as well as standard software in the amount of €8.1million (2015: €4.8million). As in the previous year, this balance sheet item did not include any intangible assets developed in house in the year under report.

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

Fixed assets are assigned to non-current assets.

27 Taxation Recoverable

in €m	31.12.2016	31.12.2015
Current taxation recoverable	14.0	6.9
Deferred taxation recoverable	36.4	25.1
Total	**50.4**	**32.0**

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

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

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

in €m	31.12.2016	31.12.2015	Change
	As shown in the balance sheet	**As shown in the balance sheet**	
Trading portfolio*	–3.2	–4.2	1.0
Share-based payments	0.0	0.9	–0.9
Intangible assets	0.0	–2.4	2.4
Net loan impairment provision	12.2	11.8	0.4
Pensions	19.8	15.6	4.2
Financial assets	–0.2	–2.1	1.9
Buildings	–7.8	–7.8	0.0
Provisions	14.9	9.5	5.4
Recognised in the income statement	**35.7**	**21.3**	**14.4**
Financial instruments	–42.9	–33.9	–9.0
Foreign currency translation	0.0	–0.3	0.3
Pensions	43.6	38.0	5.6
Without effect on income	**0.7**	**3.8**	**–3.1**
Deferred taxes	**36.4**	**25.1**	**11.3**
of which taxation recoverable	36.4	25.1	11.3
of which taxation	0.0	0.0	0.0

* Balance from measurement differences in all trading activities

Within the scope of the provisions for the treatment of deferred taxes, the deferred taxation recoverable was offset against deferred taxation, as in previous years.

The losses incurred in the consolidated closed-end real estate fund and in conjunction with the withdrawal from certain business activities in Luxembourg could not be used for tax purposes, since it is highly unlikely that taxable income would be generated in the future that could be offset against tax-deductible losses. The losses carried forward for an indefinite period of time amount to €58.7million (2015: €66.6million), with international entities accounting for €46.6million (2015: €53.1million) thereof. As in the previous year, there are no temporary differences on so-called outside basis differences.

Taxation recoverable is primarily assigned to non-current assets.

28 Other Assets

Other assets of €182.6million (2015: €181.0million) include one property in a consolidated closed-end real estate fund pursuant to IAS 2 with a book value totalling €138.8million (2015: €138.5million).

This property is reported with its purchase or production costs on the basis of individual allocation of the costs within the meaning of IAS 2.23 et seq. In case of an impairment, a write-down is recognised on the net realisable value, if necessary. This is based on an external valuation. If the circumstances that have led to a reduction in the value of the property no longer exist, the carrying amount is reversed again to maximum the purchase or production costs. No scheduled depreciation takes place. No interest on borrowing is capitalised. The property serves as collateral for existing borrowing.

Additionally, this item includes excess cover from our CTAs (contractual trust agreement) of €1.9million (2015: €4.8million) and other taxes of €1.1million (2015: €2.0million).

Other assets are primarily assigned to non-current assets.

29 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2016	31.12.2015
Bonds and other fixed-income securities	287.9	298.4
Profit-participation certificates	3.1	3.2
Total	**291.0**	**301.6**

30 Repurchase Agreements and Securities Lending

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

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 own securities are reported under trading assets.

in €m	31.12.2016		31.12.2015	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial liabilities	Fair value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	–	–	–	–
Securities lending transactions	48.0	14.6	88.1	1.2
Total	**48.0**	**14.6**	**88.1**	**1.2**

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

in €m	31.12.2016		31.12.2015	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial liabilities	Fair value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	–	–	–	–
of which may be sold or pledged	–	–	–	–
of which are already sold or pledged	–	–	–	–
Securities lending transactions	58.4	–	148.2	1.0
of which may be sold or pledged	52.5	–	128.3	–
of which are already sold or pledged	5.9	–	19.9	–
Total	**58.4**	**–**	**148.2**	**1.0**

31 Deposits by Banks

in €m	31.12.2016	31.12.2015
Current accounts	298.2	290.8
Money market transactions	846.4	73.4
of which overnight money	6.3	0.0
of which term deposits	840.1	73.4
Other liabilities	398.1	238.1
Collateral items in the derivatives trading business	243.5	150.1
Total	**1,786.2**	**752.4**
of which domestic banks	1,303.8	460.1
of which foreign banks	482.4	292.3

The increase in the volume of money market transactions is largely attributable to the Bank's €750.0million participation in the European Central Bank's second series of new targeted longer-term refinancing operations (TLTRO II).

As at 31 December 2016, deposits by banks secured by charges on real property amounted to €120.0million (2015: €117.5million).

32 Customer Accounts

in €m	31.12.2016	31.12.2015
Current accounts	11,335.5	10,937.1
Money market transactions	1,722.3	1,452.7
of which overnight money	261.9	262.6
of which term deposits	1,460.4	1,190.1
Savings deposits	3.6	63.8
Other liabilities	561.9	475.2
Total	**13,623.3**	**12,928.8**
of which domestic customers	12,321.8	11,487.8
of which foreign customers	1,301.5	1,441.0

Customer accounts continue to represent our main refinancing source.

33 Certificated Liabilities

Certificated liabilities relate to bonds issued. The prior year increase of €10million in certificated liabilities to €45.4million is attributable to the issue of a registered bond.

34 Trading Liabilities

in €m	31.12.2016	31.12.2015
Negative market value of derivatives	2,066.5	2,309.8
Promissory note loans, bonds, certificates and warrants	2,320.6	2,703.7
Delivery obligations arising from securities sold short	6.1	17.2
Derivatives in hedging relationships	104.1	114.0
Derivatives held in the banking book	2.5	4.0
Total	**4,499.8**	**5,148.7**

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.

35 Provisions

Provisions are broken down as follows:

in €m	31.12.2016	31.12.2015	Change in %
Provisions for pensions and similar obligations	75.0	49.7	50.9
Provisions for credit risks	18.4	15.2	21.1
Other provisions	79.8	73.7	8.3
Total	**173.2**	**138.6**	**25.0**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in 2016:

in €m	Pensions and similar obligations	Partial retirement	Statutory retirement age	Other	Total
As at 01.01	**46.6**	**0.4**	**0.3**	**2.4**	**49.7**
Change in the plan assets	6.1	−0.1	−1.2	0.0	4.8
Pensions paid	−9.9	−0.6	0.0	0.0	−10.5
Additions (incl. projected income)	12.0	0.8	2.2	0.2	15.2
Transfers/other	−2.8	0.0	0.2	0.6	−2.0
Changes recognised directly in equity arising from the remeasurement of the net pension obligation	17.8	0.0	0.0	0.0	17.8
As at 31.12	**69.8**	**0.5**	**1.5**	**3.2**	**75.0**

Administrative expenses for pensions and other employee benefits are made up of the following components:

in €m	2016	2015
Expenses for defined benefit plans	15.2	17.6
of which current service costs	17.0	17.5
of which interest expense	7.4	7.1
of which estimated income from the plan assets	−8.6	−5.9
of which past service costs and gains from plan settlements	−0.6	−1.1
Expenses for defined contribution plans	6.0	6.0
Other expenses for retirement provisions	0.4	0.8
Total	**21.6**	**24.4**

We have also included €15.8million (2015: €15.0million) in employer contributions to the state pension scheme in staff expenses.

Expenses for defined contribution plans include contributions to the mutual pension fund scheme organised for the German banking sector, BVV Versicherungsverein.

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

Collective regulations

(a) Legal framework

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

(b) Open regulations for new business

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

c) Closed regulation

Employees who joined the company in the period from 1 January 2001 to 30 June 2013 are subject to a regulation (VO 2001) in line with the VO 2013, which differs largely from the current regulation regarding the committed guaranteed interest rate. This pension fund consists of the vested benefits of former employees but no current pension benefits.

Two further pension plans exist for employees who joined the company before 31 December 2000 and former employees of the Hamburg branch; these were closed for new policies. Beneficiaries of these regulations receive benefits in the form of life-long old-age, invalidity and survivors' pensions. These are final salary schemes dependent on the length of service with a divided benefit formula. The pension is paid when the benefit falls due as a percentage share of the pensionable income, whereby different percentages for income components below and above the contribution assessment ceiling in the statutory pension scheme are envisaged based on years of service.

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

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

(d) BVV Versicherungsverein des Bankgewerbes a.G.

In addition, several group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a.G. or to BVV Versorgungskasse des Bankgewerbes e.V. These are treated as a defined contribution plan. Some of the contributions consist of the employees' deferred compensation. Provisions were not created for the services to be provided by BVV, as the probability of the mandatory subsidiary responsibility being utilised is classified as very low.

(e) Life-long working time account model

All of the Group's staff have the option to extend their pension provision via the life-long working time account (Lebensarbeitszeitkonto – LAZK). This model aims to provide employees with a flexible means of providing for their future. By converting salary, overtime or special payments, the model allows active gainful employment to be ended even before the official retirement age. In addition, care-giving periods and periods of parental leave are possible while receiving partial or full salary payments.

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

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

Financing
Plan assets were created to fund the pension obligations and separated through a so-called contractual trust agreement (CTA). HSBC Trinkaus Vermögenstreuhänder e. V. and HSBC Trinkaus Mitarbeitertreuhänder e. V. assume the role of trustee. Active members of the trustee constitute three members of the Management Board of the Bank, one member of the Supervisory Board and 10 employees.

The Bank regularly aims to comprehensively finance the committed benefits externally. There is no obligation to allocate contributions to the CTA. The Bank is entitled to assets that are not needed to fund the committed benefits. Besides the reinvestment of the distribution amount, no further additions to the plan assets are envisaged.

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

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

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

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

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

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

The extent of the obligation (defined benefit obligation, DBO) of the closed pension fund amounts to €249.1million (2015: €224.6million) during the period under report, with benefit recipients accounting for €67.5million (2015: €64.8million) thereof. The DBO of the individual commitments amounts to €78.8million (2015: €74.2million), with benefit recipients accounting for €55.0million (2015: €53.5million) thereof. The DBO of the open pension fund (in force since 1 July 2013) amounts to €2.0million (2015: €1.5million). Capital commitments account for €49.2million (2015: €43.8million).

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

in %	31.12.2016	31.12.2015
Base rate of interest for pensions	1.81	2.26
Base rate of interest for obligations from partial retirement and early retirement regulations	0.34	0.74
Base rate of interest for obligations similar to pension obligations and anniversary obligations	1.38	1.88
Base rate of interest for LAZK	1.38	1.71
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	2.9	2.9

The base rate of interest is calculated on the basis of the average yield on long-term and first-class bonds. The duration of obligations for pensions is 19 years (2015: 18.7 years), the duration of obligations from partial retirement and early retirement regulations is unchanged from the prior year at three years and the duration of obligations similar to pension obligations and provisions for jubilee payments is also unchanged from the prior year at 10 years. Consultancy company Willis Towers Watson's 'Global Rate:Link' is used for calculating interest. This includes bonds rated at least AA while taking other specific factors into account.

Sensitivity analyses for the defined benefit obligations

Pursuant to IAS 19.145, the extent by which the key measurement assumption for the DBO could 'reasonably' change during a one-year period must be determined.

The rate of interest, the assumed rate of inflation and the underlying salary increase rate must be regarded regularly as major assumptions. The following disclosures relate to the sensitivities of the DBO for pensions:

Measurement parameter as at 31.12.2016	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	1.81 %	+1.00 percentage points	−16.4 %
Base rate of interest	1.81 %	−1.00 percentage points	21.6 %
Development of salaries	3.00 %	−0.50 percentage points	−2.8 %
Development of salaries	3.00 %	0.50 percentage points	3.2 %
Pension increase	2.00 %	−0.25 percentage points	−2.9 %
Pension increase	2.00 %	+0.25 percentage points	3.0 %
Life expectancy	Pursuant to FT 2005 G	+1 year for a person currently aged 65	3.7 %

Measurement parameter as at 31.12.2015	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	2.26 %	1.00 percentage points	–16.1 %
Base rate of interest	2.26 %	–1.00 percentage points	21.2 %
Development of salaries	3.00 %	–0.50 percentage points	–3.1 %
Development of salaries	3.00 %	0.50 percentage points	3.3 %
Pension increase	2.00 %	–0.25 percentage points	–2.9 %
Pension increase	2.00 %	+0.25 percentage points	3.6 %
Life expectancy	Pursuant to FT 2005 G	+1 year for a person currently aged 65	3.6 %

Breakdown of pension obligations

in €m	2016	2015	2014	2013	2012
Non-funded pension obligations	**0.9**	**1.8**	**21.0**	**17.1**	**14.8**
Funded pension obligations					
Present value of the pension obligations	424.5	375.4	350.0	275.5	263.0
Fair value of the plan assets	352.3	332.3	300.1	268.8	251.4
Balance	**72.2**	**43.1**	**49.9**	**6.7**	**11.6**
of which plan shortfall	74.1	47.9	50.6	8.2	13.2
of which plan excess	1.9	4.8	0.7	1.5	1.6
Total pension obligations	**75.0**	**49.7**	**71.6**	**25.3**	**28.0**
Remeasurement of net pension obligations					
from plan assets (before taxes)	9.0	3.3	0.2	–9.8	–12.5
from plan obligations (before taxes)	–149.9	–126.4	–133.5	–74.7	–75.6

The cumulative valuation reserves for the remeasurement of net pension obligations, which are recorded in shareholders' equity with no effect on the income statement, amounted to a loss of €97.4million after taxes (2015: loss of €85.1million).

The losses from the remeasurement of net pension obligations incurred in the year under report are largely due to the further decline in the base rate of interest for pensions.

Net debt from defined benefit obligations developed as follows:

in €m	Pension obligations	Plan assets	Net debt
As at 01.01.2015	**371.0**	**300.1**	**70.9**
Service costs	17.5		17.5
Past service cost	–		–
Gains from plan settlements	–1.1		–1.1
Interest expense / income	7.1	5.9	1.2
Remeasurement	–7.1	3.1	–10.2
Actual income excluding interest income		3.1	–3.1
Change in actuarial gains and losses	–7.1		–7.1
from adjustment to the obligations	0.8		0.8
from changes to the demographic assumptions	0.0		0.0
from changes to the financial assumptions	–7.9		–7.9
Retirement benefits paid directly by the employer*	–1.8	0.0	–1.8
Retirement benefits paid from the plan assets*	–8.7	–8.7	0.0
Sums paid in conjunction with plan settlements	–0.6		–0.6
Transfers and others	0.9		0.9
Additions to the plan assets	0.0	31.9	–31.9
Withdrawals from the plan assets	–	–	
As at 31.12.2015	**377.2**	**332.3**	**44.9**
of which: pension provisions			49.7
of which: capitalised plan assets			4.8
As at 01.01.2016	**377.2**	**332.3**	**44.9**
Service costs	17.0		17.0
Past service cost	0.0	0.0	0.0
Gains from plan settlements	–0.6		–0.6
Interest expense / income	7.4	8.6	–1.2
Remeasurement	23.5	5.7	17.8
Actual income excluding interest income		5.7	–5.7
Change in actuarial gains and losses	23.5	0.0	23.5
from adjustment to the obligations	–2.0		–2.0
from changes to the demographic assumptions	0.0		0.0
from changes to the financial assumptions	25.5		25.5
Retirement benefits paid directly by the employer*	–4.0		–4.0
Retirement benefits paid from the plan assets*	–6.1	–6.1	0.0
Sums paid in conjunction with plan settlements	–0.4		–0.4
Transfers and others	11.4	10.5	0.9
Additions to the plan assets	0.0	1.3	–1.3
Withdrawals from the plan assets	0.0	0.0	0.0
As at 31.12.2016	**425.4**	**352.3**	**73.1**
of which: pension provisions			75.0
of which: capitalised plan assets			1.9

* Reported in the previous year under pensions paid in Development of pension obligations or under additions/withdrawals to/from plan assets in Development of the fair value of plan assets.

The purchase of further fund units in the plan assets of €62.3million and distributions from the plan assets of €39.1million (2015 total: €23.2million) is shown under additions/withdrawals. In order to illustrate the development of net debt more appropriately, the distributions used to pay the retirement benefits are reported as of this year under the item Retirement benefits paid from the plan assets. This item amounts to €6.1million in the year under report (2015: €8.7million). The portion of the distributions used for reinvestment is shown under Additions to the plan assets. The distributions were not reinvested in the financial year (2015: €30.4million). As in the previous year, no withdrawals were made from the plan assets.

Distribution of pension obligations

in €m	2016	2015
Assets	267.4	224.9
of which non-forfeitable	167.4	141.4
Vested benefits of former employees	35.5	34.0
Beneficiaries	122.5	118.3
Total	**425.4**	**377.2**

Total pension obligations are attributable to partial retirement obligations of €2.6million (2015: €2.5million), to LAZK obligations of €45.6million (2015: €30.0million), to anniversary obligations of €12.3million (2015: €9.6million) and to early retirement obligations of €0.5million (2015: €4.5million).

Impact of the obligations on future cash flows

in €m	2017	2018	2019	2020	2021	2022 – 2026
Future cash flows	9.0	9.5	9.8	10.0	10.2	58.3

Breakdown of the fair value of plan assets

in €m	2016	2015
Bonds and other fixed-income securities	104.3	99.1
Equities	22.3	21.6
Discount/index certificates	2.4	5.5
Re-insurance claims from life insurances	18.0	18.3
Investment funds	118.0	104.7
Derivatives	68.2	67.3
Closed-end real estate funds	4.0	4.0
Other	15.1	11.8
Fair value of plan assets as at 31.12	**352.3**	**332.3**

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

Provisions for credit risks

The provisions for credit risks of €18.4million (2015: €15.2million) from the off-balance sheet lending business are created for contingent liabilities and other obligations. Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2016	2015	2016	2015	2016	2015
As at 01.01	**0.0**	**0.0**	**15.2**	**13.1**	**15.2**	**13.1**
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Reversals	0.0	0.0	1.0	0.0	1.0	0.0
Additions	4.2	0.0	0.0	2.1	4.2	2.1
Direct write-offs	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12	**4.2**	**0.0**	**14.2**	**15.2**	**18.4**	**15.2**

Other provisions

The other provisions developed as follows in 2016:

in €m	As at 01.01.2016	Utilisation	Reversals	Additions	Compounding	As at 31.12.2016
Provisions for trade payables for soft- and hardware	17.0	1.1	0.9	11.2	0.0	26.2
Provisions for expected interest on retrospective tax payments	11.6	5.3	0.0	1.9	–0.1	8.1
Provisions for trade payables for goods and services	9.4	1.7	6.4	9.0	0.0	10.3
Provisions for goodwill	9.0	1.3	2.1	2.3	0.1	8.0
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg	14.7	2.3	0.0	1.3	0.7	14.4
Provisions for restoration obligations	3.7	0.0	0.3	0.8	0.0	4.2
Provisions for archiving	2.5	0.0	0.0	0.1	0.0	2.6
Provisions for other taxes	1.3	0.6	0.0	0.0	0.0	0.7
Miscellaneous other provisions	4.5	1.5	0.1	1.8	0.6	5.3
Total	**73.7**	**13.8**	**9.8**	**28.4**	**1.3**	**79.8**

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

No material legal disputes and associated litigation risks were pending as at 31 December 2016.

36 Taxation

in €m	31.12.2016	31.12.2015
Current taxation	43.9	35.0
Deferred taxation	0.0	0.0
Total	**43.9**	**35.0**

Current taxation includes provisions for income taxes that are likely to be paid on the basis of the tax accounts of the fully-consolidated Group companies, taking into account additions and reductions in respect of corporation and trade tax, less previous tax repayments. In addition, our obligations arising from any taxation to be paid as a result of current and future audits are also reported under this item.

As in the previous year, deferred taxation recoverable is offset against deferred taxation.

Taxation is assigned to short-term obligations.

37 Other Liabilities

in €m	31.12.2016	31.12.2015
Liabilities from other taxes	17.4	19.6
Deferred income	30.3	39.3
Other liabilities	187.6	190.1
Total	**235.3**	**249.0**

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients. Other liabilities include predominantly trade payables and liabilities from performance-related remuneration.

Other liabilities are mainly assigned to short-term obligations.

38 Subordinated Capital

in €m	31.12.2016	31.12.2015
Subordinated liabilities (bonds, promissory note loans)	328.0	348.2
Participatory capital	100.0	100.0
Accrued interest on		
subordinated liabilities	4.8	5.1
Participatory capital	4.9	4.9
Total	**437.7**	**458.2**

In order to secure the flexibility of the Group further with regard to refinancing and strengthening the capital, the Annual General Meeting of HSBC Trinkaus & Burkhardt AG on 8 June 2016 agreed to grant new authorisation to the Management Board to issue profit-participation certificates, bonds and other hybrid instruments without option or conversion rights, or option or conversion obligations, in such a manner that it includes the authorisation to exclude subscription rights.

The authorisation is valid until 31 May 2020.

When profit-participation certificates, bonds and other hybrid instruments are issued without any option or conversion rights, or option or conversion obligations, the Management Board may exclude the statutory subscription right wholly or partly, if after mandatory examination the Management Board concludes that the issue price is not significantly below the theoretical market value ascertained in accordance with recognised and in particular mathematical valuation methods. Subject to approval by the Supervisory Board, the Management Board may also exclude fractional amounts (resulting from the subscription ratio) from shareholders' subscription rights and, where this is necessary, grant subscription rights to the holders of option rights or the holders of convertible profit-sharing certificates, convertible bonds and other hybrid instruments with conversion rights or obligations that would entitle such holders to the same extent as they would have been entitled on exercising their conversion or option rights or obligations. The Management Board will carefully examine whether the exclusion of the shareholders' subscription rights is in the best interest of the Company and thus also in the best interest of its shareholders. The Supervisory Board will only grant the necessary approval if it concludes these requirements have been met. Provided the subscription right is not excluded, the profit-participation certificates, bonds or other hybrid instruments may also be subscribed by the Management Board of specific banks, subject to the obligations to offer them to the shareholders (indirect subscription right).

Subject to approval by the Supervisory Board, the Management Board is authorised to determine any specifications with regard to the issue and its features, in particular the volume, time, interest rate, issue price and term.

The resolution passed at the Annual General Meeting of 2 June 2015 authorising the Management Board to issue on one or several occasions by 31 May 2020 registered and/or bearer participation rights, bonds or other hybrid instruments without conversion or option rights or conversion or option obligations with a perpetual maturity, which meet the requirements of CRR and other provisions on the recognition of Additional Tier 1 capital (AT1 capital), where applicable, or issue other hybrid instruments with a fixed or perpetual maturity that do not meet the requirements of CRR concerning the recognition of AT1 capital, was withdrawn.

Further details and provisions as well as the full text of the aforementioned resolution can be found in the administration's proposals for resolution on agenda item no. 5 and the corresponding report by the Management Board to the Annual General Meeting on the convening of the company's Annual General Meeting published in the Federal Gazette (Bundesanzeiger) on 20 April 2016.

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

Subordinated capital of €264.4million (2015: €300.7million) is used to calculate the liable capital in accordance with CRR.

For the 2016 financial year, interest payable amounts to €11.9million (2015: €12.3million) on subordinated liabilities and to €4.9million (2015: €4.9million) on participatory capital.

Interest and repayment of subordinated liabilities

Interest rate	Nominal amount (€m) 31.12.2016	Nominal amount (€m) 31.12.2015
4 % to less than 5 %	90.0	100.2
Over 5 % up to 6 %	88.0	98.0
Fixed rates	178.0	198.2
Variable rates	150.0	150.0
Total	**328.0**	**348.2**

Repayment	Nominal amount (€m) 31.12.2016	Nominal amount (€m) 31.12.2015
Up to 1 year	30.0	20.2
Over 1 year up to 5 years	103.0	93.0
Over 5 years	195.0	235.0
Total	**328.0**	**348.2**

39 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG's share capital as at 31 December 2016 amounted to €91.4million (2015: €91.4million) and is divided into 34,088,053 (2015: 34,088,053) no-par value shares.

The Management Board is authorised to increase the company's share capital by up to €45,711,948.47 on or before 31 May 2020, with the Supervisory Board's approval, through one or more issues of new bearer shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to €45,711,948.47 by means of issuing 17,044,026 new no-par value bearer shares. The conditional capital increase can only be executed to the extent that the holders of the profit-participation certificates, bonds or other hybrid instruments with option or conversion rights, that may only be issued from 2 June 2015 up to 31 May 2020 due to the authorisation of the Management Board through a resolution of the Annual General Meeting, exercise their option or conversion rights, or the holders of the profit-participation certificates, bonds or other hybrid instruments with option or conversion obligations to be issued by the company by 31 May 2020 on the basis of the forthcoming aforementioned authorisation fulfil their option or conversion obligation. No use has been made of this authorisation to date.

Premiums from the issue of shares and options on treasury shares are shown in the capital reserve.

Profits from previous years that are not distributed are generally reported in retained earnings and in consolidated profit available for distribution.

In December 2016, HSBC Trinkaus & Burkhardt AG raised Additional Tier 1 (AT1) capital in the form of a subordinated bearer bond with unlimited maturity with a total notional amount of €235.0million, thus extending the scope for continuing the growth strategy it embarked on in summer 2013. The bond cannot be called by the issuer for the first five years and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.65 %. HSBC Bank plc, London, which holds 80.7 % of the share capital of HSBC Trinkaus & Burkhardt AG, fully subscribed and purchased the securities within the scope of a private placement. In accordance with IFRS it constitutes shareholders' equity.

The results from the measurement of financial assets after taking deferred taxes into account are reported in the valuation reserve for financial instruments. Profits or losses are not recognised as income until after disposal or impairment of the asset.

The difference between the value forecast at the start of the year as at the balance sheet date and the actual value of the obligation or the plan assets calculated on the balance sheet date, after taking deferred taxes into account, are shown in the valuation reserve for the remeasurement of the net pension obligation.

The valuation reserve from currency conversion results from the consolidation of the real estate fund, the functional currency of which is the AUD.

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

According to MaRisk, banks have to set up strategies and processes which ensure that enough internal capital is available to cover all main risks; in other words that their risk-bearing capacity is permanently guaranteed.

ICAAP represents an integral part of risk management for us, which is embedded into the risk management process and is constantly being developed further.

The quarterly analysis and continuous monitoring of the risk-bearing capacity is based on an income statement/balance sheet approach and also covers types of risk that are not included in the regulatory requirements for the capital adequacy of banks (e.g. liquidity or pension risk). The calculation of the economic capital requirement and derivation of the aggregate risk cover is carried out for two different scenarios – going concern and liquidation scenario – which are completed by associated stress assessments. As part of the overall bank stress assessment in the going concern scenario, the Bank assumes an unusual but conceivable negative development of the global economy (for example, global economic collapse with a sharp decline in global trade or deterioration of the financial position of the public sector) and thus simulates the impact on specific quantifiable risks. Separate stress scenarios are defined for quantifiable risks that are not covered by the scenario and the impact analysed. In addition to these regular stress tests, the Bank conducts an inverse stress test once a year. This type of stress testing is related to the identification of results that could seriously threaten the Bank's own existence; in other words, it could potentially erode the aggregate risk cover of the going concern scenario. HSBC Trinkaus & Burkhardt identified the abolition of the federal financial equalisation system as a possible inverse stress scenario, which increases the risk premiums of the federal states, among other things.

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

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

The Group's risk-bearing capacity is unchanged and its capitalisation adequate. As in the previous year, the minimum capitalisation requirements are met.

Valuation reserve for financial instruments

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

in €m	2016	2015
Net valuation reserve as at 01.01	**120.0**	**167.4**
Disposals/additions (gross)	−8.8	−46.5
Market fluctuations (gross)	18.7	−31.2
Impairments (gross)	−5.3	13.2
Deferred taxes	−9.0	17.1
Net valuation reserve as at 31.12	**115.6**	**120.0**

The HSBC Trinkaus & Burkhardt Group meets its disclosure obligations pursuant to Pillar 3 through the disclosure made at Group level by HSBC Holdings plc, London (Article 6 (3) CRR). We refer in this respect to HSBC Group's publications under the heading Investor Relations on its website (www.hsbc.com).

Notes to the Consolidated Income Statement

40 Net Interest Income

in €m	2016	2015
Interest income*	**296.8**	**273.9**
From loans and advances to banks	9.4	10.5
Money market transactions	6.4	7.4
Other interest-bearing receivables	3.0	3.1
Reverse repos	0.0	0.0
From loans and advances to customers	190.3	149.3
Money market transactions	24.3	9.5
Other interest-bearing receivables	166.0	139.8
From financial assets	87.2	101.0
Interest income	83.1	96.0
Dividend income	3.0	3.2
Income from subsidiaries	1.1	1.8
From other*	9.9	13.1
Interest expense*	**85.4**	**72.2**
From deposits by banks	44.0	33.7
Money market transactions	3.1	1.2
Other interest-bearing deposits	40.9	32.5
From customer accounts	22.0	18.6
Money market transactions	10.5	5.7
Other interest-bearing deposits	11.5	12.9
From certificated liabilities	0.4	0.4
From subordinated capital	16.8	17.2
From other*	2.2	2.3
Net interest income*	**211.4**	**201.7**

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

Net interest income amounts to €211.4million (2015 adjusted: €201.7million) and has therefore increased by a total of €9.7million or 4.8 %.

This increase is mainly attributable to significantly improved interest income in the client lending business due to higher volume. In contrast, interest income from financial assets declined again. The low margins in the lending business continued to weigh on net interest income.

The Bank paid negative interest rates of €11.5million in the financial year and received interest income of €16.7million. Of the interest paid, €8.7million concerns our account held with Deutsche Bundesbank (2015: €2.4million). A part of our customer deposits were invested as surplus liquidity in bonds with negative yields. These losses are not included in the aforementioned figures on negative interest rates.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of €2.0million (2015: €4.2million).

41 Net Loan Impairment and Other Credit Risk Provisions

in €m	2016	2015
Additions	14.0	2.3
Reversals	9.3	1.0
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.3	1.1
Total	**4.4**	**0.2**

After net loan impairment and other credit risk provisions of €0.2million in the previous year, this item came to €4.4million in the 2016 financial year. Individually assessed impairments featured new provisions of €12.7million as well as reversals of €8.3million. Recoveries on loans and advances previously written off amounted to income of €0.3million. Collectively assessed impairments required a net addition of €0.3million. Our conservative orientation is unchanged in relation to the assessment of default risks. The risk provisioning requirements therefore turned out to be higher, as forecast, compared to the very low prior-year figure.

42 Net Fee Income

in €m	2016	2015
Securities transactions	116.3	117.2
Securities portfolio transactions	106.8	105.0
Asset management	75.2	77.7
Foreign exchange trades	68.4	63.8
Lending	47.5	24.0
Capital financing	29.7	24.1
Domestic/international payments	24.8	23.3
Other services	6.0	6.1
Total	**474.7**	**441.2**

We once again succeeded in increasing net fee income by a remarkable 7.6 % or €33.5million to €474.7million (2015: €441.2million).

We generated net fee income from transactions in securities and financial instruments of €116.3million (2015: €117.2million). Following the considerable increase in the previous year, we succeeded in maintaining net fee income in the year under review almost at the prior year level. During the 2016 financial year, the volume of alternative forms of investment availed of by our institutional clients was comparable with the previous year.

In the securities portfolio business, where the result was achieved mainly in fund management and in the custodian bank business, the result of €106.8million represented a slight improvement on the good prior-year result (2015: €105.0million).

Net fee income from asset management amounts to €75.2million (2015: €77.7million) in a highly competitive environment and is down slightly on the previous year.

At €68.4million (2015: €63.8million), the result generated in the fee-based business with foreign exchange improved by €4.6million. This result reflects our customers' continued requirements to hedge against exchange rate fluctuations in the current volatile foreign exchange market environment and the still growing number of institutional and corporate customers looking for tailor-made solutions at the Bank, such as currency overlay management.

Net fee income from the lending business increased by an excellent €23.5million to €47.5million (2015: €24.0million). We achieved very high income in connection with our participation in some very high-volume refinancing structures. In addition, fee income in the lending business with our clients developed favourably.

We increased net fee income from capital financing by €5.6million or 23.2 % to €29.7million (2015: €24.1million). The favourable increase is due mainly to origination fees in the debt capital markets business. We were once again successful in supporting our customers with corporate financing transactions, also via promissory note loans.

We increased the volume of domestic/international payments and documentary business slightly over the previous year by €1.5million to €24.8million (2015: €23.3million).

43 Net Trading Income

in €m	2016	2015
Equities and equity/index derivatives	38.3	49.1
Bonds and interest rate derivatives*	27.1	6.0
Foreign exchange	9.9	7.7
Derivatives held in the banking book	2.3	11.7
Hedge result	1.1	0.6
Total*	**78.7**	**75.1**

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

Net trading income rose by €3.6million to €78.7million (2015 adjusted: €75.1million).

Income of €38.3million generated from the fixed-income and interest-rate derivatives business is down significantly on the prior year figure of €49.1million. In addition to the collapse of the equity market at the start of 2016, Brexit and the election campaign in the US in particular led to lasting uncertainty among investors, which was also reflected in a reduction in the volume of business in investment certificates. Contrary to previous years, this effect could not be offset by increased interest in trading products, because of only short-term volatility peaks in a market that traded mostly sideways.

Following unusual turbulence on the bond markets in the second quarter of the previous year, we significantly improved the result again in bonds, money market transactions and interest rate derivatives. After adjusting the prior-year figure for interest from money market transactions, we increased the result from €6.0million to €27.1million.

Given the still major need on the part of our clients to hedge against exchange rate fluctuations in the currently volatile foreign exchange market environment, net income from trading with derivatives held in the banking book declined substantially, by €9.4million to €2.3million. The prior-year result benefited considerably from the major weakening of the euro exchange rate versus the US dollar.

44 Administrative Expenses

in €m	2016	2015
Staff expenses	355.4	336.1
Wages and salaries	300.0	279.9
Social security costs	33.8	31.8
Expenses for retirement pensions and other employee benefits	21.6	24.4
Other administrative expenses	195.6	174.3
Depreciation of property, plant and equipment and of intangible assets	16.9	20.0
Total	**567.9**	**530.4**

Administrative expenses rose by €37.5million or 7.1 %, from €530.4million to €567.9million.

The growth in staff numbers as a result of the growth strategy is reflected in the €19.3million increase in staff expenses to €355.4million as well as in the general salary increases. Furthermore, the adjustment of the growth plan ('Germany 2020' strategy) and the related focus on qualitative growth compared with the previous year led to higher non-recurring staff expenses.

Other administrative expenses increased by €21.3million to €195.6million. This increase is due, among other things, to the high non-recurring expense for the accelerated process of implementing the global standards of HSBC Group, which will help combat financial crime more effectively and further expand and extend strong and sustainable relations with our clients.

Depreciation of property, plant and equipment and of intangible assets amounted to €16.9million, which represents a €3.1million decline on the previous year.

The cost-efficiency ratio is therefore 70.8 % (2015: 70.9 %) and is in line with the previous year's forecast of just over 70 %.

Other administrative expenses include €39.042.5million (2015: €39.0million) in expenses arising from rental and lease payments.

45 Income from Financial Assets

We increased income from financial assets by €9.9million to €24.9million (2015: €15.0million). Gains on the disposal of securities and write-backs to securities were set against very low write-downs on investments in the real estate sector and on securities.

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

in €m	2016	2015
Income statement		
Net gain/loss from disposal	20.0	29.6
Tax expenses	–5.7	–4.6
Net realisation gain in the income statement	**14.3**	**25.0**
Performance of the gross valuation reserve for financial instruments		
Change from disposals	–19.4	–29.3
of which volatility in the year under report	–10.1	5.9
of which volatility in previous years	–9.3	–35.2
Performance of corresponding tax expenses		
Change from disposals	–5.7	–4.6
of which volatility in the year under report	–3.5	1.5
of which volatility in previous years	–2.2	–6.1

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

in €m	2016	2015
Income statement		
Impairments/write-ups on financial instruments	4.9	–14.6
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	–5.3	13.2
of which volatility in the year under report	–4.0	11.7
of which volatility in previous years	–1.3	1.5
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–1.8	3.2
of which volatility in the year under report	–1.5	2.9
of which volatility in previous years	–0.3	0.3

46 Net Other Income

in €m	2016	2015
Other operating income	19.2	28.3
Other operating expenses	6.9	13.5
Other net operating income	**12.3**	**14.8**
Other income	0.5	0.3
Other expenses	0.3	0.2
Other net income	**0.2**	**0.1**
Net other income	**12.5**	**14.9**

Other net operating income came to €12.3million (2015: €14.8million) and largely includes rental income from our real estate. This item also includes expenses resulting from the depreciation of a property.

Other net income amounted to €0.2million after €0.1million the year before.

47 Tax Expenses

in €m	2016	2015
Current taxes	88.8	69.2
of which off-period	3.3	2.1
Deferred taxes from change in limited valuation differences	–14.4	–3.9
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**74.4**	**65.3**

Tax expenses of €74.4million in the financial year under report are €9.1million higher than in the previous year. The increase is mainly due to higher income in the previous year from the disposal of fund units that are subject to a lower tax rate. This gives a tax rate of 32.4 % after 30.0 % the previous year.

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

in €m	2016	2015
Pre-tax profit	229.9	217.4
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	72.2	68.3
Tax rate differential on income proportions subject to taxation outside of Germany	0.0	0.0
Effect from unused losses carried forward	0.0	0.0
Taxes for previous years	3.3	2.1
Corporation tax modification	2.4	10.7
Trade tax modification	1.0	0.9
Tax-exempt income from investments	−2.1	−12.4
Other	−2.4	−4.3
Reported taxation	**74.4**	**65.3**

48 Income Statement by Measurement Category

The following overview includes on the one hand, the interest income/expense and fee income/fee expenses for every measurement category. On the other, it includes net gains and net losses for each measurement category of financial assets and financial liabilities in accordance with IAS 39. Net profits/losses from net trading income and net other income are a net earnings indicator comprising on the one hand changes in market value recognised in the income statement, disposals of financial instruments, impairments and currency translation effects if necessary. Income from financial assets is also a net earnings indicator, whereby impairments are shown separately.

Measurement category 31.12.2016 in €m	Loans and receivables	Held for trading	Derivatives in hedging relation-ships	Available for sale	Other financial commit-ments	Other	Total
Net interest income							
Interest income	184.8	0.0	0.0	87.2	14.9	9.9	296.8
Interest expense	−9.4	0.0	−30.9	0.0	−42.9	−2.2	−85.4
Net fee income							
Fee income	51.5	0.8	0.0	0.0	0.0	616.8	669.1
Fee expenses	−4.0	−3.3	0.0	0.0	0.0	−187.1	−194.4
Net trading income	0.7	76.9	−2.3	3.4	0.0	0.0	78.7
Income from financial assets	0.0	0.0	0.0	20.0	0.0	0.0	20.0
Net other income	0.0	0.0	0.0	0.0	0.0	12.5	12.5
Impairments							
Net loan impairment and other credit risk provisions	−1.2	0.0	0.0	0.0	0.0	−3.2	−4.4
Income from financial assets	0.0	0.0	0.0	4.9	0.0	0.0	4.9
Total	**222.4**	**74.4**	**−33.2**	**115.5**	**−28.0**	**446.7**	**797.8**

Measurement category 31.12.2015 in €m	Loans and receivables	Held for trading	Derivatives in hedging relation-ships	Available for sale	Other financial commit-ments	Other	Total
Net interest income*							
Interest income*	159.6	0.0	0.0	101.0	0.2	13.1	273.9
Interest expense*	–2.7	0.0	–29.0	0.0	–38.2	–2.3	–72.2
Net fee income							
Fee income*	27.7	0.8	0.0	0.0	0.0	613.8	642.3
Fee expenses*	–3.8	–2.8	0.0	0.0	0.0	–194.5	–201.1
Net trading income*	0.0	65.0	10.9	–0.8	0.0	0.0	75.1
Income from financial assets	0.0	0.0	0.0	29.6	0.0	0.0	29.6
Net other income	0.0	0.0	0.0	0.0	0.0	14.9	14.9
Impairments							
Net loan impairment and other credit risk provisions	1.9	0.0	0.0	0.0	0.0	–2.1	–0.2
Income from financial assets	0.0	0.0	0.0	–14.6	0.0	0.0	–14.6
Total	**182.7**	**63.0**	**–18.1**	**115.2**	**–38.0**	**442.9**	**747.7**

* The prior year figures were adjusted. The changes are explained in Note 18.

49 Earnings per share

	2016	2015
Adjusted net income in €m*	154.9	152.1
Average number of shares in circulation in million	34.1	34.1
Earnings per share (€)	**4.54**	**4.46**
Undiluted earnings per share in €	**4.54**	**4.46**

In adjusted net income, interest from Additional Tier 1 capital was deducted from net income, in order to calculate the earnings per share attributable to the ordinary shareholders.

No subscription rights were outstanding at the end of the 2016 financial year - like at the end of the previous year. There was therefore no calculable dilution effect.

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €2.50 per share (2015: €2.50 per share).

Other Notes

50 Notes to the Cash Flow Statement

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

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

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

Cash and cash equivalents

As in the previous year, the cash and cash equivalents of €1,107.3million (2015: €690.2million) correspond to the balance sheet item 'cash reserve', which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash flow from operating activities

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

Consolidated net profit of €155.5million (2015: €152.1 million) is the input figure for the cash flow statement. Gross cash flow of €95.4million (2015: €121.7million), which is reported as a sub-total, shows the operating cash flow surplus before any changes in working capital. The cash flows from operating activities also take into account the changes in funds employed in operations.

Cash flow from investing activities

Spending on the acquisition of property, plant and equipment totalled €31.1million in the 2016 financial year (2015: €31.0million). The sale of property, plant and equipment realised €1.9million (2015: €1.4million) for the Group. In the financial year under report, the sale and purchase of equity-linked financial investment instruments resulted in payments received of €5.9million (2015: €18.3million).

Cash flow from financing activities

Cash flow from financing activities includes the dividend of €85.2million (2015: €70.3million) for the 2015 financial year paid by HSBC Trinkaus & Burkhardt AG in the year under report. In addition, changes in cash flow arose from the €235.0million raised in Additional Tier 1 capital and the €20.2million reduction in subordinated capital due to maturing promissory note loans.

51 Customer Groups

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

The Bank is divided into the following segments – Private Banking & Asset Management (PB&AM), Commercial Banking (CMB), Global Banking & Markets (GB & M) as well as Central / Consolidation.

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

In addition to the large international corporate customers and institutional clients, Global Banking & Markets also includes the Capital Financing and Markets activities, as well as HSBC Securities Services. Apart from the lending business and investment banking, Capital Financing mainly includes the origination function on the primary market, while Markets comprises the distribution and trading activities for capital market products on the secondary market. HSBC Securities Services comprises custody, clearing and custodian bank services, as well as being responsible for fund administration within the Group.

In addition to pure asset management and advisory services, Private Banking also includes special facilities such as advice on special asset structuring, execution of wills and Family Office services.

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

In addition to non-recurring special effects, such as after the withdrawal from certain business activities in Luxembourg, Central only reports the regulatory cost items and reconciliation items, which exist between the aggregate of the three core segment results and the total amount between the respective sub-categories of the income statement.

The grouping of Private Banking and Asset Management – which were previously reported separately – with the Private Banking & Asset Management segment is in line with the new control system within HSBC Germany. The new segment includes total income from the Private Banking & Asset Management business for the first time for 2016 and adjusted retrospectively for the previous year. The components of the other Commercial Banking, Global Banking and Markets and Central segments remain unchanged.

Segment reporting by operating business division for 2016 and 2015 is as follows:

in €m		PB&AM	CMB	GB&M	Central / Consoli- dation	Total
Net interest income*	2016	12.0	113.7	86.3	−0.6	211.4
	2015	16.9	95.2	90.2	−0.6	201.7
Net loan impairment provision	2016	−0.1	6.2	−0.9	−0.8	4.4
	2015	0.8	0.8	−0.2	−0.2	0.2
Net interest income after net loan impairment provision	2016	12.1	107.5	87.2	0.2	207.0
	2015	16.1	94.4	90.4	0.6	201.5
Share of profit in associates	2016	0.0	0.0	0.0	0.0	0.0
	2015	0.0	0.0	0.1	0.0	0.1
Net fee income	2016	89.6	60.5	323.1	1.5	474.7
	2015	98.4	53.0	290.0	−0.2	441.2
Operating trading income*	2016	0.2	−1.5	75.6	2.1	76.4
	2015	−0.5	1.2	61.2	1.4	63.3
Income after net loan impairment provision	2016	101.9	166.5	485.9	3.8	758.1
	2015	114.0	148.6	441.7	1.8	706.1
Administrative expenses	2016	82.5	114.1	346.9	24.4	567.9
	2015	81.8	97.2	324.7	26.7	530.4
of which depreciation and amortisation	2016	0.9	1.2	2.4	12.4	16.9
	2015	1.1	1.2	2.6	15.1	20.0
Income from financial assets	2016	3.4	5.6	15.9	0.0	24.9
	2015	2.4	3.2	9.4	0.0	15.0
Results from derivatives in the banking book	2016	0.4	0.5	1.5	−0.1	2.3
	2015	1.6	2.0	6.1	2.1	11.8
Net other income	2016	4.2	3.5	10.8	−6.0	12.5
	2015	2.4	2.9	9.4	0.2	14.9
Pre-tax profit	**2016**	**27.4**	**62.0**	**167.2**	**−26.7**	**229.9**
	2015	**38.6**	**59.5**	**141.9**	**−22.6**	**217.4**
Taxation	2016	8.6	19.5	52.5	−6.2	74.4
	2015	12.1	18.7	44.6	−10.1	65.3
Net profit for the year	**2016**	**18.8**	**42.5**	**114.7**	**−20.5**	**155.5**
	2015	**26.5**	**40.8**	**97.3**	**−12.5**	**152.1**
Change versus previous year in %		**−29.1**	**4.2**	**17.9**	**−64.0**	**2.2**

* The prior year figures were adjusted. The changes are explained in Note 18.

The moderate recovery of the German economy continued in 2016, driven mainly by robust domestic demand owing to the favourable labour market situation and the increase in real wages, as well as by economic stimulus coming from the low value of the euro and the additional expenditure involved in handling the influx of refugees. The uncertainty concerning the outlook for the future development of the global economy triggered by Brexit and the election of a new American president has led to a certain degree of reticence among market participants and to a preference for fixed income over equity investments. In addition to the ECB's sustained low interest rate policy with negative deposit rates, costs arising throughout the year from our growth strategy impacted as well. This was compounded by unchanged high expenses incurred for implementing regulatory requirements and the accelerated process of implementing the global standards of the HSBC Group to combat financial crime. The improvement in pre-tax profit in this difficult market environment demonstrates the balance and stability of the Bank's client-oriented business model.

The sustained success of the growth strategy in the business with international corporate clients together with the Bank's strong position in the business with institutional clients and the public sector contributed materially to increasing the results in the Global Banking & Markets and Commercial Banking segments compared with the previous year. In contrast, we were unable to repeat the prior-year result in the Private Banking & Asset Management segment, which was affected most by the unfavourable market environment as regards interest rates and investment. The Central segment generally reports only regulatory costs and other expenses that are not charged precisely to the business segments.

In the course of ever more intensive cooperation within the HSBC Group, the Global Banking and Markets segment achieved the best improvement in results in the Bank, especially through high credit fees for financing very large corporate takeovers and export transactions in close cooperation with the HSBC Group. In addition, money market trading and client-oriented fixed income trading could avail of further market interest rate cuts to achieve marked improvements in their results. Global Banking and Markets also operated very successfully in the generation and placement of fixed income products in the client business.

The success of the growth initiative in Commercial Banking was reflected in the continued, largely volume-related increase in interest and fee income in the lending and foreign exchange business. It was enough to make up for the increase in net loan impairment provision and the margin-related decline in interest income on current account balances as a result of interest rate cuts by the ECB. The increase in revenues enabled the Commercial Banking as well as Global Banking and Markets segment to more than compensate for the higher staff and non-staff expenses incurred for strategic reasons.

The unfavourable interest rate situation had a particularly negative impact on the Private Banking & Asset Management segment, given its decision not to pass on the ECB's negative market interest rates to the private clients. Despite almost unchanged administrative expenses, Private Banking & Asset Management failed to make up for the margin-related decline in interest income on current account balances through growing net fee income from transactions or asset management and fund management fees in a market environment that is defined by the reticence expressed by many market participants.

Besides the additional expenses incurred for implementing and controlling the regulatory provisions of the supervisory authorities and the HSBC Group, higher staff and non-staff expenses in this year were mainly a result of the measures undertaken in the previous year to continue with the growth initiative and which were reported fully in the income statement this year. The latter resulted in particular from the investments in additional employees as well as in the office and technical infrastructure for the establishment of four new branches. Investments are also being made in expanding the Bank's Middle and Back Office areas to secure unchanged processing quality and to implement the global standards of HSBC in the client business.

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

		PB&AM	CMB	GB&M	Central / Consoli-dation	Total	Adjust-ments	As at the balance sheet date
Cost efficiency ratio in %	2016	75.1	62.6	67.6	0.0	70.8	0.0	70.8
	2015	67.5	61.7	69.6	0.0	70.9	0.0	70.9
Assets* in €m	2016	436.1	6,005.1	8,953.9	6,893.7	22,288.8	796.0	23,084.8
	2015	406.9	5,093.8	10,262.1	6,537.8	22,300.6	−630.1	21,670.5
Liabilities* in €m	2016	2,584.0	4,856.2	9,158.6	4,798.3	21,397.1	−1,207.1	20,190.0
	2015	2,343.0	4,605.9	9,162.2	5,003.0	21,114.1	−2,025.2	19,088.9
Risk items for mandatory inclusion* in €m	2016	590.0	7,174.0	6,643.0	1,827.8	16,234.8	−621.1	15,613.7
	2015	596.0	7,010.0	5,656.0	2,380.9	15,642.9	228.6	15,871.5
Attributable shareholders' equity* in €m	2016	159.0	767.4	714.3	382.3	2,023.0	217.0	2,240.0
	2015	159.6	751.0	615.6	342.7	1,868.9	80.9	1,949.8
Employees	2016	451	546	1,818	17	2,832	0	2,832
	2015	453	552	1,772	16	2,793	0	2,793
Return on equity before taxes in %	2016	17.2	8.1	23.4	0.0	11.8	0.0	11.8
	2015	24.2	7.9	23.1	0.0	11.7	0.0	11.7

* 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 ost efficiency ratio is a measure of the segments' cost efficiency. Although up-front expenses from the business expansion continued to be incurred or reported fully in the income statement for the first time in 2016, this ratio has remained virtually unchanged from the previous year. Successes from the 'Germany 2020' strategy on the revenues side are reflected in an almost unchanged cost efficiency ratio in the Global Banking & Markets and Commercial Banking segments. Despite strict cost discipline, the decline in revenue in the unfavourable market conditions led to a marked increase in the cost efficiency ratio in Private Banking & Asset Management.

The capital resources of the business segments are made up of a base amount, which is allocated to each segment, plus a premium calculated according to the level of risk assets. These have remained almost unchanged in Private Banking & Asset Management but increased significantly, particularly in Global Banking & Markets.

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

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

in €m		Germany	Luxembourg	Remainder	Total
	2016	230.4	–0.5	0.0	229.9
Pre-tax profit	2015	218.9	–1.6	0.1	217.4

Long-term segment assets amounted to €257.3million (2015: €251.7million) during the year under review and are allocated exclusively to the German region, in line with the previous year.

52 Measurement Classes

The following tables provide an overview of the measurement classes in the respective balance sheet item:

Assets as at 31.12.2016 in €m

Measurement class	At amortised cost	At fair value		Total
Measurement category	**Loans and receivables**	**Held for trading**	**Available for sale*** **	
Cash reserve	1,107.3	0.0	0.0	1,107.3
Loans and advances to banks	1,255.9	0.0	0.0	1,255.9
Loans and advances to customers*	8,457.9	0.0	0.0	8,457.9
Trading assets	0.0	6,561.9	0.0	6,561.9
Financial assets	0.0	0.0	5,351.0	5,351.0
Other financial instruments	27.4	0.0	0.1	27.5
Total financial instruments	**10,848.5**	**6,561.9**	**5,351.1**	**22,761.5**

Liabilities as at 31.12.2016 in €m

Measurement class	At amortised cost	At fair value	Total
Measurement category	**Other liabilities**	**Held for trading**	
Deposits by banks	1,786.2	0.0	1,786.2
Customer accounts**	13,623.3	0.0	13,623.3
Certificated liabilities****	45.4	0.0	45.4
Trading liabilities	0.0	4,499.8	4,499.8
Subordinated capital	437.7	0.0	437.7
Other financial instruments	80.1	0.1	80.2
Total financial instruments	**15,972.7**	**4,499.9**	**20,472.6**

* Loan and advances to customers include transactions with a present value of €96.6million shown within the scope of the hedge accounting.
** Our customers' deposits are used in part to refinance our trading divisions.
*** Also includes investments measured at cost.
**** Certificated liabilities include transactions with a present value of €35.4million shown within the scope of the hedge accounting.

Assets as at 31.12.2015 in €m

Measurement class	At amortised cost	At fair value		Total
Measurement category	**Loans and receivables**	**Held for trading**	**Available for Sale*** **	
Cash reserve	690.2	0.0	0.0	690.2
Loans and advances to banks	1,186.3	0.0	0.0	1,186.3
Loans and advances to customers*	7,848.0	0.0	0.0	7,848.0
Trading assets	0.0	5,930.5	0.0	5,930.5
Financial assets	0.0	0.0	5,688.6	5,688.6
Other financial instruments	20.6	0.0	0.0	20.6
Total financial instruments	**9,745.1**	**5,930.5**	**5,688.6**	**21,364.2**

Liabilities as at 31.12.2015 in €m

Measurement class	At amortised cost	At fair value	Total
Measurement category	**Other liabilities**	**Held for trading**	
Deposits by banks	752.4	0.0	752.4
Customer accounts**	12,928.8	0.0	12,928.8
Certificated liabilities	10.0	0.0	10.0
Trading liabilities	0.0	5,148.7	5,148.7
Subordinated capital	458.2	0.0	458.2
Other financial instruments	71.1	0.3	71.4
Total financial instruments	**14,220.5**	**5,149.0**	**19,369.5**

* Loan and advances to customers include transactions with a present value of €75.9million shown within the scope of the hedge accounting.
** Our customers' deposits are used in part internally to refinance our trading divisions.
*** Also includes investments measured at cost.

53 Remaining Maturities of Financial Instruments

The remaining maturities of non-derivative financial instruments are derived as follows:

in €m		< 1 month	1–3 months	3–12 months	12 months – 4 years	> 4 years	Total
Loans and advances to banks	31.12.2016	1,163.8	20.0	50.2	16.4	5.5	1,255.9
	31.12.2015	664.9	326.3	27.6	161.4	6.1	1,186.3
Loans and advances to customers	31.12.2016	2,552.8	461.5	869.2	3,050.2	1,524.2	8,457.9
	31.12.2015	2,896.4	319.1	721.9	2,896.6	1,014.0	7,848.0
Bonds and other fixed-income securities and tradable receivables of the trading assets	31.12.2016	61.6	33.4	427.6	1,750.9	1,027.3	3,300.8
	31.12.2015	137.6	46.3	131.5	312.8	2,026.2	2,654.4
Bonds and other fixed-income securities and promissory note loans of the financial assets	31.12.2016	673.6	100.9	164.9	2,239.5	2,049.9	5,228.8
	31.12.2015	236.8	95.7	788.4	2,351.7	2,067.8	5,540.4
Total	**31.12.2016**	**4,451.8**	**615.8**	**1,511.9**	**7,057.0**	**4,606.9**	**18,243.4**
	31.12.2015	**3,935.7**	**787.4**	**1,669.4**	**5,722.5**	**5,114.1**	**17,229.1**

in €m		< 1 month	1–3 months	3–12 months	12 months – 4 years	> 4 years	Total
Deposits by banks	31.12.2016	715.4	9.5	0.0	871.4	189.9	1,786.2
	31.12.2015	570.0	0.0	0.0	88.4	94.0	752.4
Customer accounts	31.12.2016	11,034.8	335.1	265.6	1,971.5	16.3	13,623.3
	31.12.2015	12,252.1	332.9	286.3	53.2	4.3	12,928.8
Certificated liabilities	31.12.2016	0.0	10.0	0.0	0.0	35.4	45.4
	31.12.2015	0.0	0.0	0.0	10.0	0.0	10.0
Promissory note loans, bonds, certificates and warrants of the trading liabilities	31.12.2016	327.8	207.7	751.6	241.5	792.0	2,320.6
	31.12.2015	343.9	212.1	832.7	395.2	919.8	2,703.7
Subordinated capital	31.12.2016	25.1	0.0	30.0	187.0	195.6	437.7
	31.12.2015	0.1	0.3	44.6	88.3	324.9	458.2
Total	**31.12.2016**	**12,103.1**	**562.3**	**1,047.2**	**3,271.4**	**1,229.2**	**18,213.2**
	31.12.2015	**13,166.1**	**545.3**	**1,163.6**	**635.1**	**1,343.0**	**16,853.1**

54 Fair Value of Financial Instruments

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

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

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

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

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

Assessments by the management are necessary when calculating the fair value. The areas for which management decisions are necessary to a significant extent are identified, documented and reported to senior management within the scope of valuation controls and the monthly reporting cycles.

Management assessments are only required to a minor extent to determine the fair value of financial instruments, the prices of which are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments, the prices of which are measured using models that are typical for the industry and the input parameters of which all originate from active markets.

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

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

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

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

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

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

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

Risk Control carries out the following controls by:

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

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

There were no significant changes to the existing valuation methods compared with 31 December 2015.

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

31.12.2016

in € m	**Level 1**	**Level 2**	**Level 3**	**Measured at cost**	**Total**
Trading assets	**1,381.7**	**5,153.8**	**26.4**	**0.0**	**6,561.9**
Bonds and other fixed-income securities	0.0	1,534.8	0.0	0.0	1,534.8
Equities and other non-fixed-income securities	1,137.5	0.0	24.0	0.0	1,161.5
Tradable receivables	0.0	1,766.0	0.0	0.0	1,766.0
Positive market value of derivatives	244.2	1,852.7	2.4	0.0	2,099.3
of which interest rate transactions	0.0	973.5	0.0	0.0	973.5
of which foreign exchange-based transactions	0.0	862.5	2.1	0.0	864.6
of which equity / index-based transactions	244.2	2.7	0.3	0.0	247.2
of which commodity-related transactions	0.0	14.0	0.0	0.0	14.0
Derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Derivatives held in the banking book	0.0	0.1	0.0	0.0	0.1
Financial assets	**77.5**	**5,232.8**	**29.4**	**11.3**	**5,351.0**
Bonds and other fixed-income securities	0.0	5,083.2	6.7	0.0	5,089.9
Investment certificates	49.8	0.0	0.0	0.0	49.8
Promissory note loans	0.0	138.9	0.0	0.0	138.9
Investments	27.7	10.7	22.7	11.3	72.4
Trading liabilities	**439.6**	**3,996.0**	**64.2**	**0.0**	**4,499.8**
Promissory note loans, bonds, certificates and warrants	0.0	2,259.3	61.3	0.0	2,320.6
Delivery obligations arising from securities sold short	6.1	0.0	0.0	0.0	6.1
Negative market value of derivatives	433.5	1,630.1	2.9	0.0	2,066.5
of which interest rate transactions	0.0	760.4	0.0	0.0	760.4
of which foreign exchange-based transactions	0.0	853.9	2.1	0.0	856.0
of which equity / index-based transactions	433.5	1.8	0.8	0.0	436.1
of which commodity-related transactions	0.0	14.0	0.0	0.0	14.0
Derivatives in hedging relationships	0.0	104.1	0.0	0.0	104.1
Derivatives held in the banking book	0.0	2.5	0.0	0.0	2.5

31.12.2015

in €m	Level 1	Level 2	Level 3	Measured at cost	Total
Trading assets	**1,504.1**	**4,393.5**	**32.9**	**0.0**	**5,930.5**
Bonds and other fixed-income securities	0.0	1,725.2	0.0	0.0	1,725.2
Equities and other non-fixed-income securities	1,129.8	0.0	32.1	0.0	1,161.9
Tradable receivables	0.0	929.2	0.0	0.0	929.2
Positive market value of derivatives	374.3	1,738.0	0.8	0.0	2,113.1
of which interest rate transactions	0.0	953.9	0.8	0.0	954.7
of which foreign exchange-based transactions	0.0	770.0	0.0	0.0	770.0
of which equity / index-based transactions	374.3	2.9	0.0	0.0	377.2
of which commodity-related transactions	0.0	11.2	0.0	0.0	11.2
Derivatives held in the banking book	0.0	1.1	0.0	0.0	1.1
Financial assets	**96.5**	**5,547.3**	**29.1**	**15.7**	**5,688.6**
Bonds and other fixed-income securities	0.0	5,384.6	6.2	0.0	5,390.8
Investment certificates	64.8	0.0	0.0	0.0	64.8
Promissory note loans	0.0	149.6	0.0	0.0	149.6
Investments	31.7	13.1	22.9	15.7	83.4
Trading liabilities	**694.8**	**4,364.6**	**89.3**	**0.0**	**5,148.7**
Promissory note loans, bonds, certificates and warrants	0.0	2,625.0	78.7	0.0	2,703.7
Delivery obligations arising from securities sold short	17.2	0.0	0.0	0.0	17.2
Negative market value of derivatives	677.6	1,621.6	10.6	0.0	2,309.8
of which interest rate transactions	0.0	854.2	0.0	0.0	854.2
of which foreign exchange-based transactions	0.0	750.8	0.0	0.0	750.8
of which equity / index-based transactions	677.6	5.4	10.6	0.0	693.6
of which commodity-related transactions	0.0	11.2	0.0	0.0	11.2
Derivatives in hedging relationships	0.0	114.0	0.0	0.0	114.0
Derivatives held in the banking book	0.0	4.0	0.0	0.0	4.0

The measurement models and parameters for derivatives and certificates (Level 2) are derived from the following overview. The measurement of other transactions in Level 2 is by means of the present value method.

Product class	Product	Valuation model	Key measurement parameters
Equity products	Futures	Analytical formula	Price of the underlying instrument, interest rates
	European Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments
	American Plain vanilla options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments
	European quanto options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	American quanto options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Barrier options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Asian options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Multi-underlying options	Numerical method	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates, dividend payments
	Index certificates	Black-Scholes	Price of the underlying instrument, dividend pay-ments
	Discount certificates	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Bonus certificates	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Express certificate	Numerical method	Price of the underlying instrument, interest rates, volatility, dividend payments
	Basket certificates	Analytical formula	Price of the underlying instrument, dividend payments
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
Interest rate products	Plain vanilla swaps	Present value method	Interest rates
	Exotic swaps	Analytical formula	Interest rates, volatility
	Plain vanilla swaptions	Analytical formula	Interest rates, volatility
	Exotic swaptions	Tree model	Interest rates, volatility
	Plain vanilla caps, floors, collars	Black-Scholes	Interest rates, volatility
	Futures	Present value method	Interest rates
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates
Currency products	Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility
	Exotic options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, correlation
	Forward exchange transactions	Present value method	Price of the underlying instrument, interest rates
	FX swaps	Present value method	Price of the underlying instrument, interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates
Commodity products	Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
	Exotic options	Black-Scholes	Price of the underlying instrument, interest rates, volatility

The fair value of some financial instruments is calculated using valuation models, where at least one significant input parameter cannot be observed on the market (Level 3). These instruments include currency-hedged certificates (quanto certificates), as parameters for the correlation between the underlying and the foreign currency are not quoted on the market, and options, the measurement of which depends significantly on unobservable volatilities. In addition, we also classify illiquid equity investments and certificates that have illiquid equity investments as the underlying in Level 3. Financial instruments that are measured using valuation models but where the default probability of a counterparty is unobservable as a significant measurement parameter are also allocated to Level 3.

31.12.2016	Fair value of trading assets (in €m)	Fair value of trading liabilities	Fair value of financial assets (in €m)	Measurement method	Significant unobservable parameters (Level 3)	Uncertainty of interval margin (in €m)	Range of estimates for unobservable input factors
Illiquid equity instruments/private equity certificates	24.0	24.0		Modified net asset value method	–	0.0 to 0.0	−5 to 5 % price change
FX options	2.1	2.1		Analytical Black-Scholes approach	FX volatility	0.0 to 0.0	95 % confidence interval based on average prices for unobservable volatility
Illiquid equity instruments			22.7	Modified net asset value method	–	−1.1 to 1.1	−5 to 5 % price change
Illiquid debt instruments			6.7	Present value method	Credit spread	−0.1 to 0.1	−10 to 10 % credit spread change
Volatility-dependent options		13.1		Analytical Black-Scholes approach	Volatility	−0.1 to 0.1	9 to 50 % (29 %)
Currency-hedged certificates	0.3	25.0		Analytical Black-Scholes approach	Correlation between underlyings	−0.0 to 0.0	−62 to 10 % (−19 %)

31.12.2015	Fair value of trading assets (in €m)	Fair value of trading liabilities	Fair value of financial assets (in €m)	Measurement method	Significant unobservable parameters (Level 3)	Uncertainty of interval margin (in €m)	Range of estimates for unobservable input factors
Illiquid equity instruments/private equity certificates	32.1	32.1		Modified net asset value method	–	0.0 to 0.0	−5 to 5 % price change
OTC derivatives	0.8			Present value method	Credit spread	−0.2 to 0.0	0 to 149 % (92 %)
Illiquid equity instruments			22.9	Modified net asset value method	–	−1.1 to 1.1	−5 to 5 % price change
Illiquid debt instruments			6.2	Present value method	Credit spread	−0.2 to 0.2	−10 to 10 % credit spread change
Volatility-dependent options		42.6		Analytical Black-Scholes approach	Volatility	−0.1 to 0.1	18 to 43 % (29 %)
Currency-hedged certificates		14.6		Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	−73 to 33 % (−18 %)

The uncertainty interval margin for correlation-dependent currency-hedged certificates that require a correlation that is not observable on the market is calculated by shifting the estimated correlations by +/– 10 %. The uncertainty interval margin for volatility-dependent options is derived from the shift in the volatility of the underlying. The deflection of the volatility is up to +/– 2 %. The estimate range for non-derivative financial instrument is derived by changing the credit spread by +/– 10 %. We derive the uncertainty interval margin for OTC derivatives reported in trading assets for which the default probability of the counterparty is calculated on the basis of internal procedures by comparing it with implied default probabilities. In so far as FX volatility is unobservable for FX options, we derive the range of the uncertainty interval by applying a confidence interval of 95 % to the available average prices.

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

in €m	**Trading assets**	**Financial assets**	**Trading liabilities**
01.01.2016	**32.9**	**29.1**	**89.3**
Changes in the carrying amount			
recognised in the income statement	–2.6	0.0	–7.2
recognised directly in equity	0.0	0.3	0.0
Purchases	1.4	0.0	19.5
Issuance	0.0	0.0	8.0
Sales	0.0	0.0	4.1
Maturities	4.5	0.0	41.3
Transfers to Level 3	0.0	0.0	0.0
Transfers out of Level 3	0.8	0.0	0.0
31.12.2016	**26.4**	**29.4**	**64.2**

in €m	**Trading assets**	**Financial assets**	**Trading liabilities**
01.01.2015	**36.2**	**21.3**	**83.4**
Changes in the carrying amount			
recognised in the income statement	0.5	0.0	–1.0
recognised directly in equity	0.0	1.6	0.0
Purchases	0.0	0.0	4.0
Issuance	0.0	0.0	16.7
Sales	0.1	0.0	0.3
Maturities	4.5	0.0	13.4
Transfers to Level 3	0.8	6.2	0.0
Transfers out of Level 3	0.0	0.0	0.0
31.12.2015	**32.9**	**29.1**	**89.3**

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

Level 1 instruments were not reclassified as Level 2 during the period under report, neither were Level 2 instruments transferred to Level 1.

No Level 2 instruments were reclassified as Level 3 during the period under report (2015: €7.0million). Conversely, Level 3 instruments totalling €0.8million (2015: €0.0million) were transferred to Level 2 in the financial year.

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

in €m	31.12.2016		31.12.2015	
	Present value	Fair value	Present value	Fair value
Assets				
Loans and advances to banks (gross)*	1,256.0	1,256.4	1,186.5	1,187.1
Loans and advances to customers (gross)	8,481.0	8,575.2	7,876.2	7,897.0
Liabilities				
Deposits by banks	1,786.2	1,775.7	752.4	752.5
Customer accounts	13,623.3	13,628.6	12,928.8	12,938.1
Certificated liabilities	45.4	45.4	10.0	10.4
Subordinated capital	437.7	488.0	458.2	495.2

The fair value of these items is calculated using the present value method. As the credit spread changes on the market are generally unobservable for these positions, these are classified in Level 3. Contingent liabilities amount to €2,405.1million (2015: €2,310.9million) and the irrevocable loan commitments to €9,356.5million (2015: €8,769.6million).

The following table shows the financial instruments for which no price is traded on an active market and their fair values cannot be reliably calculated with the standard market measurement models. These financial instruments are measured on the basis of the acquisition costs, taking into account the necessary write-downs if necessary. They are mainly partnerships or unlisted public limited companies.

in €m	31.12.2016	31.12.2015
	Present value	Present value
Partnerships	7.0	7.7
Holdings in unlisted public limited companies	4.3	8.0
Total	**11.3**	**15.7**

The decline in holdings in unlisted public limited companies is related to a distribution. As in the previous year, holdings in these companies were not disposed of. The Bank has no intention to dispose of holdings at this point in time.

55 Day-1 Profit or Loss

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

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

in €m	2016	2015
As at 01.01	**0.3**	**0.4**
New business	0.0	0.1
Day-1 profit or loss recognised in the income statement	–0.1	–0.2
of which positions closed out	0.0	–0.1
of which matured transactions	–0.1	–0.1
of which observable market parameters	0.0	0.0
As at 31.12	**0.2**	**0.3**

56 Offsetting of Financial Assets and Financial Liabilities

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

					Amounts not offset in the balance sheet		
in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assets reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2016	Derivatives	2,099.6	0.0	2,099.6	630.7	263.4	1,205.5
31.12.2015	Derivatives	2,114.2	0.0	2,114.2	1,215.1	119.8	779.3

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

					Amounts not offset in the balance sheet		
in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial liabilities reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2016	Derivatives	2,173.1	0.0	2,173.1	630.7	379.4	1,163.0
31.12.2015	Derivatives	2,427.8	0.0	2,427.8	1,215.1	137.8	1,074.9

Loans and advances as well as liabilities in conjunction with our repurchase agreements and securities lending transactions were not offset (cf. Note 30).

57 Holdings in Foreign Currency

As at 31 December 2016, assets denominated in a foreign currency were valued at €2,744.8million (2015: €2,893.7million) and the corresponding liabilities at €3,468.9million (2015: €3,359.1million). As in previous years, the bulk of these assets and liabilities were in US dollars.

58 Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with section 36 of the German Accounting Directive for Bank and Financial Services

Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e. V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of any netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2016	Total 2015
OTC products	FRAs	0.0	0.0	0.0	0.0	18.5
	Interest rate swaps	3,552.7	8,829.6	5,169.9	17,552.2	19,774.6
	Interest rate options	1,140.1	4,133.8	215.2	5,489.1	2,481.8
	Forward transactions	1,372.2	1,110.0	0.0	2,482.2	1,334.2
Exchange-listed products	Interest rate futures	677.5	0.0	0.0	677.5	1,638.3
	Interest rate options	0.0	0.0	0.0	0.0	0.0
Interest rate transactions		**6,742.5**	**14,073.4**	**5,385.1**	**26,201.0**	**25,247.4**
OTC products	Forward exchange transactions	48,277.7	2,067.3	0.0	50,345.0	42,437.7
	Cross currency swaps	9.4	258.7	138.1	406.2	482.7
	Foreign exchange options	4,810.3	1,637.7	0.0	6,448.0	4,682.0
Foreign exchange-based transactions		**53,097.4**	**3,963.7**	**138.1**	**57,199.2**	**47,602.4**
OTC products	Forward transactions	236.9	23.8	0.0	260.7	118.4
	Options	58.4	0.0	0.0	58.4	39.7
Commodity-related transactions		**295.3**	**23.8**	**0.0**	**319.1**	**158.1**
OTC products	Forward transactions	0.0	0.0	0.0	0.0	0.0
	Equity/index options	30.6	0.0	0.0	30.6	31.2
	Equity swaps	27.9	16.9	12.6	57.4	60.2
Exchange-listed products	Equity/index futures	958.7	0.0	0.0	958.7	800.6
	Equity/index options	5,330.7	2.0	0.0	5,332.7	7,086.3
Equity/index-related transactions		**6,347.9**	**18.9**	**12.6**	**6,379.4**	**7,978.3**
Total financial derivatives		**66,483.1**	**18,079.8**	**5,535.8**	**90,098.7**	**80,986.2**

Breakdown of the derivatives business by market value

in €m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2016	Total 2015	Total 2016	Total 2015
OTC products	Interest rate swaps	5.2	168.0	621.7	794.9	845.6	672.0	839.1
	Interest rate options	0.4	56.5	0.5	57.4	19.7	62.4	30.7
	Forward transactions	102.6	18.9	0.0	121.5	89.2	132.6	102.4
Interest rate transactions		**108.2**	**243.4**	**622.2**	**973.8**	**954.5**	**867.0**	**972.2**
OTC products	Forward exchange transactions	679.0	99.2	0.0	778.2	680.3	769.7	659.9
	Cross currency swaps	0.1	26.8	4.4	31.3	51.9	31.2	51.8
	Foreign exchange options	36.7	18.4	0.0	55.1	39.1	55.1	39.1
Foreign exchange-based transactions		**715.8**	**144.4**	**4.4**	**864.6**	**771.3**	**856.0**	**750.8**
OTC products	Forward transactions	8.7	2.1	0.0	10.8	6.4	10.8	6.4
	Options	3.2	0.0	0.0	3.2	4.8	3.2	4.8
Commodity-related transactions		**11.9**	**2.1**	**0.0**	**14.0**	**11.2**	**14.0**	**11.2**
OTC products	Forward transactions	0.0	0.0	0.0	0.0	0.0	0.6	0.0
	Equity/index options	0.3	0.0	0.0	0.3	2.8	0.9	11.5
	Equity swaps	1.8	0.4	0.5	2.7	0.1	1.1	4.5
Equity/index-related transactions		**2.1**	**0.4**	**0.5**	**3.0**	**2.9**	**2.6**	**16.0**
Total financial derivatives		**838.0**	**390.3**	**627.1**	**1,855.4**	**1,739.9**	**1,739.6**	**1,750.2**

Hedging instruments

The Bank also uses derivatives (interest rate swaps) to hedge against market interest rate risk on bonds and loans within the scope of its hedge accounting. These hedging relationships resulted in positive market values of €0.2million as at 31 December 2016 (2015: €0.0million) as well as negative market values of €104.1million (2015: €114.0million).

The hedge result can be broken down as follows:

Profit and loss in €m	**2016**	**2015**
From hedging instruments	–4.7	10.9
From underlying transactions	5.8	–10.3

59 Contingent Liabilities and Other Obligations

in €m	**31.12.2016**	**31.12.2015**
Contingent liabilities on guarantees and indemnity agreements	2,405.1	2,310.9
Irrevocable loan commitments	9,356.5	8,769.6
Total	**11,761.6**	**11,080.5**

The Group assumes contingent liabilities generally on behalf of its customers. The contingent liabilities comprise mainly financial guarantees and letters of credit. Pursuant to these contracts, the Group is obliged to act according to an agreement or to make payment to a beneficiary, if a third party fails to meets its obligations.

The Group cannot know in detail if, when and to what extent claims can be made from these contingent liabilities.

The remaining times to maturity of the contingent liabilities and irrevocable loan commitments are as follows:

in €m	31.12.2016		31.12.2015	
	Contingent liabilities	**Irrevocable loan commitments**	**Contingent liabilities**	**Irrevocable loan commitments**
<1 month	535.4	103.9	552.0	156.7
1–3 months	200.0	133.1	210.7	170.6
3–12 months	916.5	781.1	734.1	862.9
12 months–5 years	675.8	7,677.1	718.1	7,219.1
>5 years	77.4	661.3	96.0	360.3
Total	**2,405.1**	**9,356.5**	**2,310.9**	**8,769.6**

The Bank outsourced to external third parties the operation of the information centre for card payments and the establishment and operation of an account information centre in accordance with section 24 c of the German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

Within the framework of the annual levy, the Financial Market Stability Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA) and the Compensation Scheme of German banks (Entschädigungseinrichtung deutscher Banken GmbH – EdB) have permitted HSBC Trinkaus & Burkhardt AG to contribute a part of the annual premium in the form of fully hedged payment claims (so-called irrevocable payment obligation).

This partial amount of the bank levy or the EDB contribution amounts to €3.8million (2015: €2.0million) (cf. Note 'Pledged as Collateral').

The contingent liabilities arising from shares in cooperatives totalled €0.2million (2015: €0.2million). The shares in cooperatives were terminated as at 31 December 2016.

No material legal disputes and associated litigation risks were pending as at 31 December 2016.

60 Lessee and Lessor Figures

Obligations from lease agreements (incl. rental and lease contracts) amounted to €51.7million (2015: €58.1million) as at the balance sheet date.

in €m	31.12.2016	31.12.2015
Up to 1 year	23.6	18.8
Over 1 year up to 5 years	25.9	35.3
Over 5 years	2.2	4.0
Total commitments arising from leasing and rental contracts	**51.7**	**58.1**

HSBC Germany is to a lesser extent a lessor of commercial real estate. The following minimum leasing payments will be received from these agreements in the coming years:

in €m	31.12.2016	31.12.2015
Up to 1 year	1.8	1.6
Over 1 year up to 5 years	7.1	7.1
Over 5 years	5.1	5.1
Total maturities	**14.0**	**13.8**

61 Assets Pledged as Collateral

Securities with a nominal value of €808.0million (2015: €749.6million) were deposited as collateral for transactions conducted on futures exchanges and for securities lending transactions. The Bank pledged collateral in the amount of €827.3million (2015: €10.0million) in connection with longer-term refinancing operations with the central bank. In the public development lending business, loans and advances in the amount of €234.0million (2015: €98.1million) secure the funding available to the development banks. In conjunction with the bank levy, the Bank has lodged cash collateral of €3.8million with the FMSA (2015: €2.0million).

Financial instruments with a nominal value of €3,643.4million (2015: €3,987.3million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

As an indication of the extent of the potential liability from the Bank's off-balance-sheet trust activities, the following table shows the volume of trust activities:

in €m	31.12.2016	31.12.2015
Trust assets	**112.0**	**126.7**
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Investments	112.0	126.7
Trust liabilities	**112.0**	**126.7**
Deposits by banks	0.0	0.0
Customer accounts	112.0	126.7

63 Participating Interests

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

Company	Registered office	Percentage share of issued share capital in %	Equity held in the company in €000	Net profit for 2016 in €000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,747	0*
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	86,659	–486
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	39,000	0*
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,901	8
HSBC Transaction Services GmbH	Düsseldorf	100.0	15,000	0*
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0*
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0*
HSBC Global Asset Management (Österreich) GmbH***	Vienna	100.0	393	33
HSBC Global Asset Management (Switzerland) AG	Zurich	50.0	1,995	379
Companies with a special mission				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	0*
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	3,010	434
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	56	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	30	5
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	22	–1
Trinkaus Canada Immobilien-Fonds Nr.1 Verwaltungs-GmbH	Düsseldorf	100.0	59	9
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	21	–4
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	41	16
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	949	924
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	29	4
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	3,503	1,919
Other companies				
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	255	–3

* Profit-transfer agreement
** Equities issued by private companies
*** Figures as at 31.12.2015

The Bank also holds a 24.9 % stake in sino AG, Düsseldorf. As at 30 September 2015, the equity held in the company amounted to €4,581.5thousand and net profit to €1,150.0thousand.

On the balance sheet date, the Group held no substantial non-controlling interests.

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

64 Relationships with Unconsolidated Structured Units

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

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

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

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

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

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

The income and expenses incurred by non-consolidated structured companies as at 31 December 2016 are broken down as follows:

31.12.2016 in € m	**Securities funds**	**Private equity funds**	**Real estate funds**
Income from non-consolidated structured companies			
Net interest income	0.1	5.0	2.0
Net fee income	0.0	0.0	0.0
Net other income	0.0	0.0	0.0

31.12.2015 in €m	**Securities funds**	**Private equity funds**	**Real estate funds**
Income from non-consolidated structured companies			
Net interest income	1.8	5.0	2.5
Net fee income	0.0	0.0	0.0
Net other income	0.0	0.0	−6.2

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

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

31.12.2016 in € m	Securities funds	Private equity funds	Real estate funds
Assets			
Loans and advances to customers	0.0	0.5	77.8
Trading assets	0.0	31.1	0.0
Financial assets	33.4	1.4	5.5
Other assets	0.0	0.0	0.0
Total assets	**33.4**	**34.0**	**81.3**
Loan commitments	0.0	0.0	0.8
Maximum default risk	**33.4**	**34.0**	**82.1**
Scope of the structured companies	**3,119.1***	**181.8***	**363.2***
Liabilities			
Customer accounts	2.9	4.6	6.5
Total liabilities	**2.9**	**4.6**	**6.5**

* Some figures as at 31.12.2015

31.12.2015

in €m	Securities funds	Private equity funds	Real estate funds
Assets			
Loans and advances to customers	0.0	0.6	95.0
Trading assets	0.0	32.1	0.0
Financial assets	41.6	1.4	6.2
Other assets	0.0	0.0	0.0
Total assets	**41.6**	**34.1**	**101.2**
Loan commitments	0.0	0.0	8.5
Maximum default risk	**41.6**	**34.1**	**109.7**
Scope of the structured companies	**686.6**	**206.1***	**421.5***
Liabilities			
Customer accounts	7.7	7.7	12.7
Total liabilities	**7.7**	**7.7**	**12.7**

* Some figures as at 31.12.2015

In conjunction with winding up our business with closed-end real estate funds, no non-contractual financial support was granted to non-consolidated structured units in the 2016 financial year (2015: €7.0million).

65 Releasing Subsidiaries from the Disclosure Requirement in Accordance with Sections 264 (3) and 264b of the German Commercial Code (HGB)

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

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf
- Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH und Co. KG, Düsseldorf

66 Letter of Comfort

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

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

67 Staff

Annual average	**2016**	**2015**
Staff employed abroad	6	18
Staff employed in Germany	2,807	2,725
Total (including trainees)	**2,813**	**2,743**
of which female members of staff	1,197	1,162
of which male members of staff	1,616	1,581

68 Auditors' Fees

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

in €m	2016	2015
Audit services*	1.7	1.3
Other audit services	0.0	0.0
Tax advisory services	0.2	0.1
Other services	0.0	0.1
Total	**1.9**	**1.5**

* Includes for the first time the audit conducted in accordance with section 36 of the German Securities Trading Act (WpHG) in the 2016 financial year.

69 Business Relationships with Companies and Pensions defined as Related Parties

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

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

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

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

in €m	2016	2015
Interest income	5.1	7.3
Interest expense	10.0	9.5
Fee income	81.3	79.4
Fee expenses	3.5	1.4
Administrative expenses	12.7	20.8
Net trading income	1.6	0.0
Net other income	−0.1	0.0
Total	**61.7**	**55.0**

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

	Affiliated companies		Associated companies	
in €m	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Loans and advances to banks	778.3	794.7	0.0	0.0
Loans and advances to customers	0.3	1.5	94.0	95.6
Total	**778.6**	**796.2**	**94.0**	**95.6**

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

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Deposits by banks	317.3	219.9	0.0	0.0
Customer accounts	57.2	36.8	11.9	19.2
Total	**374.5**	**256.7**	**11.9**	**19.2**

Deposits by banks comprise mainly short-term deposits of other HSBC units.

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

	Securities		Derivatives	
in €m	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Trading assets	0.0	0.0	786.3	865.9
Trading liabilities	0.0	0.0	918.3	875.7
Financial assets	0.0	0.0	0.0	0.0

Trading assets and liabilities comprise mainly market values from interest and currency-related derivative transactions.

Compensation of the Executive Bodies

The basic elements of the remuneration system are described in the management report. The following overview explains the remuneration components of the members of the Management Board pursuant to German Accounting Standard (GAS) 17. In accordance with the resolution passed at the Annual General Meeting on 5 June 2012, the disclosures required by Section 314 (1) No. 6 a Sentence 5 – 8 of the German Commercial Code (HGB) have been omitted.

At €4,135.1thousand, the fixed compensation for all members of the Management Board for 2016 was slightly lower than the previous year (€4,341.6thousand), taking into account the changes to the composition of the Management Board. The variable remuneration component amounted to €4,330.0thousand (2015: €4,431.4thousand). Remuneration of the Supervisory Board members for the 2016 financial year amounted to €2,165.0thousand (2015: €2,215.7thousand) in the form of shares and €2,165.0thousand (2015:

€2,215.7thousand) in cash. The variable share of the Management Board remuneration for the 2016 financial year includes a long-term remuneration component of €2,598.0thousand (2015: €2,658.8thousand), of which €1,299.0thousand (2015: €1,329.4thousand) is attributable to variable remuneration paid in cash and €1,299.0thousand (2015: €1,329.4thousand) is attributable to variable remuneration in the form of shares of HSBC Holdings plc or notional AIF units (fund units).

Other compensation in the amount of €83.4thousand (2015: €75.7thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually. It is not performance based.

Provisions totalling €14.0million (2015: €11.8million) have been created to cover pension obligations to the members of the Management Board and their surviving dependants according to IFRS. In the financial year, €0.8million (2015: 1.1million) was recognised in the income statement.

Severance payments for members of the Management Board and Material Risk Takers in the amount of €0.5million (2015: €5.0million) was granted in 2016.

The compensation for members of the Supervisory Board is governed in the Articles of Association, on the basis of which each member of the Supervisory Board receives a fixed salary of €50,000. The chairperson receives two and a half times this amount and the deputy chairperson two times this amount. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned remuneration of a member of the Supervisory Board, provided the respective committee has met at least once in the financial year. Where a member of the Supervisory Board has more than one office, such member is only remunerated for the office with the highest remuneration. Where membership in the Supervisory Board or a committee does not last the duration of an entire financial year, the remuneration is reduced on a pro rata basis.

In the financial year, payments totalling €119.0thousand (2015: €157.7thousand) were made to one member of the Supervisory Board in consideration of advisory services provided. Remuneration of the Supervisory Board members amounted to €1,239.0thousand (2015: €1,188.8thousand) for the 2016 financial year. No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG as the legal predecessors of HSBC Trinkaus & Burkhardt AG and their surviving dependants, as well as former members of the Management Board of Trinkaus & Burkhardt AG totalled €5.2million (2015: €8.9million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €49.8million (2015: €48.7million).

Total expenditure in accordance with IAS 24 for the 2016 financial year amounted to €10.5million (2015: €14.9million). This was recognised in administrative expenses in the period in which it arose and according to the provisions of the underlying standards.

70 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 31.12.2016	Number of option rights 31.12.2015
SAYE 2011 (5Y)	01 Aug. 2011	1.61	5.80	5,984	25,668
SAYE 2012 (5Y)	01 Aug. 2012	1.30	5.35	25,854	35,499
Total				**31,838**	**61,167**

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on August 1 of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2016 was €5.82 (1 August 2015: €8.30).

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

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2016	SAYE 2010 – 2012	61,167	5.54
Exercised in the course of the year	SAYE 2011 (5Y)	19,387	5.64
Expired in the course of the year	SAYE 2011 – 2012	0	0.00
Forfeited in the course of the year	SAYE 2011 – 2012	9,942	3.81
Balance as at 31.12.2016		31,838	5.43
of which outstanding option rights		25,854	
of which exercisable option rights		5,984	

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2015	SAYE 2010 – 2012	177,787	5.45
Exercised in the course of the year	SAYE 2010 (5Y) / SAYE 2012 (3Y)	108,297	5.39
Expired in the course of the year	SAYE 2010 – 2012	593	6.07
Forfeited in the course of the year	SAYE 2010 – 2012	7,730	3.91
Balance as at 31.12.2015		61,167	5.54
of which outstanding option rights		54,042	
of which exercisable option rights		7,125	

The weighted average remaining term to maturity of option rights still outstanding as at 31 December 2016 was 210 days (2015: 352 days).

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

As in the previous year, performance-related remuneration for employees and Management Board members was partially carried out by means of assigning shares of HSBC Holdings plc. Shares in the amount of €15.7million (2015: €17.4million) were assigned for the 2016 financial year. The shares will be transferred on a pro rata basis in the following financial years.

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

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the 'Government Commission for the German Corporate Governance Code' and made it permanently available to the public on the HSBC Trinkaus &Burkhardt AG website under under http://www.about.hsbc.de/de-de/investor-relations/corporate-governance.

72 Offices held by Members of the Management Board

As at 31 December 2016, the members of the Management Board and of the Executive Committee of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards or comparable management bodies:

Carola Gräfin v. Schmettow (Chairwoman)

Position	Company
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Member of the Supervisory Board	ThyssenKrupp AG, Essen
Non-Executive Director	HSBC France S.A., Paris, France

Dr Rudolf Apenbrink

Position	Company
Chairman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (Hong Kong) Ltd., Hong Kong

Paul Hagen

Position	Company
Chairman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Deputy Chairman of the Supervisory Board	Düsseldorfer Hypothekenbank AG, Düsseldorf
Member of the Supervisory Board	HSBC Bank A.S., Istanbul, Turkey
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	RWE Trading GmbH, Essen

Stephen Price (until 31 May 2016)

Position	Company
Member of the Supervisory Board	HSBC Bank Polska S.A., Warsaw

Norbert Reis

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

Dr Christiane Lindenschmidt (Executive Committee member) (until 15 June 2016)

Position	Company
Chairwoman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Dr Jan Wilmanns (Executive Committee member)

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

73 Offices Held by Other Members of Staff

As at 31 December 2016, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr Michael Böhm

Position	Company
Non-Executive Director	HSBC Global Investment Funds SICAV, Luxembourg
Non-Executive Director	HSBC International Select Funds SICAV, Luxembourg
Non-Executive Director	HSBC Portfolios SICAV, Luxembourg
Non-Executive Director	HSBC Amanah Funds, Luxembourg
Member of the Advisory Board	DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt am Main
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Mark Cringle

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

Thomas Fahlenbock

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

Gerd Goetz

Position	Company
Deputy Chairman of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	Sino AG, Düsseldorf

Markus Hollmann

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

Carsten Hennies

Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Dr Detlef Irmen

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

Dr Andreas Kamp

Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Dr Manfred v. Oettingen (until 31 December 2016)

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

Götz Röhr

Position	Company
Member of the Supervisory Board	Theodor-Fliedner-Heim GmbH, Solingen

Heiko Schröder

Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf
Member of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Ulrich W. Schwittay

Position	Company
Member of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

Norbert Stabenow

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

Bernd Stotzka

Position	Company
Member of the Supervisory Board	Opra Turbines B.V., Hengelo, Netherlands

Heiner Weber

Position	Company
Non-Executive Director	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland

Steffen Zeise

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

74 Offices held by Supervisory Board Members

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

Andreas Schmitz (Chairman)

Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Chairman of the Supervisory Board	Scheidt & Bachmann GmbH, Mönchengladbach
Member of the Supervisory Board	E.ON SE, Düsseldorf
Member of the Board of Directors	KfW-Bankengruppe, Frankfurt am Main

Samir Assaf

Position	Company
Chairman	HSBC France S.A., Paris, France

Dr Hans Michael Gaul

Position	Company
Member of the Supervisory Board	Siemens AG, Munich

Alan Keir

Position	Company
Non-Executive Director	HSBC Bank Middle East Limited, Dubai, United Arab Emirates
Non-Executive Director	Majid Al Futtaim Holdings LLC, Dubai, United Arab Emirates
Non-Executive Director	Sumitomo Mitsui Banking Corporation Europe, London, Great Britain

Simon Leathes

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

Friedrich Merz

Position	Company
Chairman of the Supervisory Board	BlackRock Asset Management Deutschland AG, Munich
Chairman of the Supervisory Board	WEPA Industrieholding SE, Arnsberg
Member of the Board of Directors	Stadler Rail AG, Bussnang, Switzerland

Dr Eric Strutz

Position	Company
Member of the Board of Directors	Partners Group Holding AG, Baar, Switzerland
Member of the Board of Directors	Partners Group AG, Baar, Switzerland
Non-Executive Director	HSBC Bank plc, London, Great Britain

Hans-Jörg Vetter

Position	Company
Chairman of the Supervisory Board	Herrenknecht AG, Schwanau
Member of the Supervisory Board	LBBW Asset Management Investmentgesellschaft mbH, Stuttgart

75 Publication

The annual report will be released for publication on 7 March 2017.

Dusseldorf, 21 February 2017

Carola Gräfin v. Schmettow   Dr Rudolf Apenbrink   Paul Hagen   Norbert Reis

Auditor's Report

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in capital, the consolidated cash flow statement, notes to the consolidated financial statements as well as the Group management report prepared by HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the business year from 1 January to 31 December 2016. 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 company's 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 recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the Group management report. Knowledge of the Group's business activities and its economic and legal environment as well as evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the Group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

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

Düsseldorf, 3 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Goldschmidt
Auditor

ppa. Susanne Beurschgens
Auditor

Report of the Supervisory Board

Management

The Supervisory Board met five times during the 2016 financial year.

At four meetings conducted during the financial year, the Supervisory Board received comprehensive reports from the Management Board on the development of business at the Bank, its major subsidiaries and individual business areas. The reports given by the Management Board to the Supervisory Board addressed current business development against target figures and the figures of the corresponding period of the previous year, risk management aspects, external audit activities, and corporate governance issues. The Bank's investment securities (including the relevant valuation) and liquidity situation were also presented to the Supervisory Board. Furthermore, the Supervisory Board dealt with the evolution of the Bank's growth initiative to 'Strategy Germany 2020', with capital planning and with strategic planning of office facilities. In December 2016 the Bank raised Additional Tier 1 capital (AT1) in the amount of €235million. Over and above regular reporting, the Supervisory Board received detailed reports on developments and challenges in the divisions Private Banking, Financial Institutions Group and Global Markets as well as an update on the merger of Commercial Banking and Global Banking to Corporate and Institutional Banking.

External auditors took part in the Supervisory Board's meeting regarding the financial statements for the previous year.

Activities of the Supervisory Board's committees

In order to permit the more efficient handling of selected management issues, the Supervisory Board set up five separate committees from amongst its members. Specifically, the following committees are established:

- **the Mediation Committee,** whose task is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;

- **the Nomination Committee,** which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting, and which supports the Supervisory Board – in accordance with the provisions of the German Banking Act – inter alia in identifying candidates for appointment to the Management Board, and in reviewing the structure, size, composition and performance of the Management Board and the Supervisory Board;

- **the Remuneration Committee,** whose duties include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board (including its remuneration); long-term succession planning (to be pursued jointly with the Management Board); handling conflicts of interests affecting members of the Management Board or the Supervisory Board; monitoring whether remuneration systems are appropriate; monitoring the proper inclusion of internal control instances and any other relevant areas in the structuring of remuneration systems; and approving connected-party loans to the Bank's employees or to members of the Supervisory Board;

- **the Audit Committee,** which supports the Supervisory Board in various tasks, including the monitoring of the accounting and financial reporting process, the effectiveness of the risk management system, and in carrying out the audits of the financial statements – especially with regard to the independence of the external auditors proposed, and the services rendered by them;
- **the Risk Committee,** whose duties include advising the Supervisory Board on the Company's current and future total risk appetite and strategy; accepting the periodic reports of the Management Board on the Bank's risk situation and any substantial shortcomings identified by Internal Audit, as well as any material shortcomings not yet remedied. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act – particularly with regard to connected-party loans to enterprises. Furthermore, the Risk Committee also discusses the risk strategy with the Management Board, who is responsible for devising it, and approves the strategy as well as any material changes thereto.

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

The Nomination Committee met once, the Remuneration Committee four times, the Risk Committee five times, and the Audit Committee five times (of which once in the form of a conference call).

The Nomination Committee concerned itself – in accordance with legal requirements – with the structure, size, composition and performance of the Management Board and the Supervisory Board, as well as with the skills, professional aptitude and experience of individual Management Board and Supervisory Board members, as well as of the respective executive body in its entirety.

The Remuneration Committee submitted proposals concerning Management Board remuneration to the Supervisory Board, and discussed the Bank's remuneration system with the Management Board. Furthermore, the Committee approved the acceptance of Supervisory Board mandates by members of the Management Board.

During two meetings, the Audit Committee discussed the 2015 financial statements; during the conference call it discussed the draft half year report prior to publication. The Bank's external auditors attended all meetings.

During its meetings, amongst other issues, the Risk Committee duly noted and discussed reports submitted by Internal Audit, the Compliance Officer, the Money Laundering Prevention Officer and the Head of the Legal Department. Discussions focused on the business and risk strategy as well as the credit risk strategy (which were also discussed by the plenary meeting of the Supervisory Board) and the development of risk-weighted assets. In each meeting reports on individual exposures and the development of specific business sectors were given. Furthermore, in all meetings the Risk Committee received detailed reports on measures taken by the Bank to combat money laundering, and to prevent breaches of sanctions. Moreover, the Risk Committee carried out all regular tasks delegated to it by the Supervisory Board in the course of all Committee meetings.

Corporate Governance

During its meeting in February, the Supervisory Board discussed the German Corporate Governance Code and its implementation by the Company. The 2016 Corporate Governance Report, which details and explains the deviations from the recommendations of the Government Commission 'German Corporate Governance Code', is included in this Annual Report. Together with the Declaration of Compliance pursuant to section 161 of the AktG, the report is also available for download from the Bank's website.

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

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

During the 2016 financial year, no conflicts of interest were detected between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board's Audit Committee satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

Annual financial statements

The Supervisory Board has examined the annual financial statements of the Bank for the year ending 31 December 2016, as well as the 2016 Management Report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting on 27 April 2017. The Annual General Meeting, held on 8 June 2016, appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) as the auditors for the financial statements and consolidated financial statements. In its meeting on 8 June following the Annual General Meeting the Supervisory Board commissioned the auditors to carry out the audit of the financial statements and the consolidated financial statements. The Auditors have audited the Bank's books, its annual financial statements and the Management Report for the year ending 31 December 2016, and have issued their unqualified audit opinion. The audit report was submitted to the Supervisory Board; no objections were raised.

The consolidated financial statements for the year ended 31 December 2016 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (Handelsgesetzbuch – 'HGB'). These financial statements were also audited by KPMG and given an unqualified opinion. Both the consolidated financial statements and the audit report were submitted to the Supervisory Board, and approved by it, in its meeting on 27 April 2017.

Relationships with affiliated enterprises

In accordance with section 312 of the AktG, the Management Board has prepared a report on the Bank's relationships with affiliated enterprises for the 2016 financial year. Pursuant to section 313 of the AktG, the auditor provided this report with the following audit opinion: 'Having duly examined and assessed this report in accordance with professional standards, we confirm that (1) the report is free from factual misrepresentations, and (2) that the company did not pay any excessive consideration with regard to the transactions identified in the report.' The Supervisory Board duly noted and approved this report.

Personnel changes within the Supervisory Board / attendance of Supervisory Board meetings

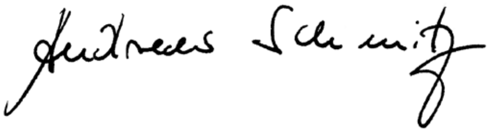
As Christian Schweizer is no longer an employee of the Bank, he has retired from the Supervisory Board. During 2016, Samir Assaf attended two meetings of the Supervisory Board and has not taken part in any meeting of the Remuneration Committee and Nomination Committee. Simon Leathes attended three of five Supervisory Board meetings, two of five meetings of the Audit Committee, and two of five meetings of the Risk Committee. Hans-Jörg Vetter attended two of five Supervisory Board meetings.

Recognition

The Supervisory Board thanks the members of the Management Board for their open and trustworthy cooperation. The Supervisory Board would also like to extend a special thank-you to the staff whose work in the past year has made an essential contribution to the Bank's success.

Düsseldorf, April 2017

The Supervisory Board



Andreas Schmitz
Chairman

Corporate Governance Report 2016

Corporate Governance as an integral part of our corporate culture

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

Both management and representation of the Bank are the responsibility of a Management Board, which consisted of four members at the end of 2016; the Management Board was assisted by three Executive Committee members responsible for the Global Markets / Institutional & Corporate Clients as well as Commercial Banking and Global Corporates businesses. The Bank's organisational structure – including the responsibilities of the individual members of the Management Board for their specific business areas, and central functions – is described in the chapter 'Business areas' of the Annual Report.

Composition of the Supervisory Board

The Management Board is subject to the supervision of a Supervisory Board, which is in turn subject to co-determination provisions. The Supervisory Board comprises 16 members, shareholders and employees being represented by eight members each.

The Supervisory Board currently has two female members. As the largest shareholder (holding a stake exceeding 80 %), HSBC has two representatives on the Supervisory Board, neither of whom is a German national. LBBW, the second-largest shareholder (holding a stake of just under 19 %), has one representative on the Supervisory Board. Of the eight shareholder representatives, six individuals hold professional experience obtained in senior positions in the banking sector; the two other individuals have each gained their experience in similar positions in other business sectors. In addition to the two HSBC representatives, one shareholder representative is not a German national.

Against this background, the Supervisory Board has formulated the following objectives for its composition, as provided by the German Corporate Governance Code:

1. The composition of the Supervisory Board shall be determined in the interest of the Company. The members of the Supervisory Board must be reliable, in line with the legal requirements applicable for credit institutions, and must have the professional aptitude necessary for carrying out their control functions, and also to assess and verify the Bank's business activities. The number of independent shareholder representative should be at least five.

2. One of the factors determining the Bank's business model is its close integration into the HSBC Group's global network. Accordingly, the Supervisory Board should always have at least two individuals holding senior positions at HSBC – with experience and expertise in the international business – as is presently the case.

3. Conflicts of interest affecting Supervisory Board members prevent them from giving independent and efficient advice to, and supervising, the Management Board. The Supervisory Board will decide on how to deal with any conflicts of interest which may arise on the merits of each individual case. In principle, any individual holding an office with one of the Bank's material competitors might be disqualified from election to the Bank's Supervisory Board. Since LBBW, the Bank's second-largest shareholder (holding a stake of just under 19 %), only competes with the Bank in certain business sub-segments, it should retain one representative on the Supervisory Board in the future.

4. The Supervisory Board does not consider any fixed age limit for membership of the Supervisory Board to be sensible. A fixed age limit would oblige the Bank to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, was providing valuable contributions for the Bank. Also, such a limit would contradict the general trend of postponing the statutory retirement age. Therefore, the Bank will continue not to comply with this recommendation of the Code.

5. At the time of election, candidates should not have been a member of the Supervisory Board for more than eight years.

Supervisory Board Committees

The Supervisory Board set up five separate committees from amongst its members:

- **the Mediation Committee,** whose task it is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;

- **the Nomination Committee,** which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting, and which supports the Supervisory Board – in accordance with the provisions of the German Banking Act – inter alia in identifying candidates for appointment to the Management Board, and in reviewing the structure, size, composition and performance of the Management Board and the Supervisory Board;

- **the Remuneration Committee,** whose duties include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board (including its remuneration); long-term succession planning (to be pursued jointly with the Management Board); handling conflicts of interests affecting members of the Management Board or the Supervisory Board; monitoring whether remuneration systems are appropriate; monitoring the proper inclusion of internal control instances and any other relevant areas in the structuring of remuneration systems; and approving connected-party loans to the Bank's employees or to members of the Supervisory Board;

- **the Audit Committee,** which supports the Supervisory Board in various tasks, including the monitoring of the accounting and financial reporting process, the effectiveness of the risk management system, and in carrying out the audits of the financial statements – especially with regard to the independence of the external auditors proposed, and the services rendered by them;

- **the Risk Committee,** whose duties include advising the Supervisory Board on the Company's current and future total risk appetite and strategy; accepting the periodic reports of the Management Board on the Bank's risk situation and any substantial shortcomings identified by Internal Audit, as well as any material shortcomings not yet remedied. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act – particularly with regard to connected-party loans to enterprises. Furthermore, the Risk Committee also discusses the risk strategy with the Management Board, who is responsible for devising it, and approves the strategy as well as any material changes thereto.

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

Gender quota

As at the key date 31 December 2016 the Supervisory Board has two female members. In accordance with legal requirements which came into effect on 1 January 2016, the quota of female Supervisory Board members will be increased to a minimum of 30 % in the event of replacements or new elections of members.

The Supervisory Board has determined a minimum target of 20 % female Management Board members. Given that one of four members of the Management Board is female, the Bank complied with this target during the period under review.

The Management Board has set minimum female quotas of 10 % for the first management level and of 20 % for the second management level below the Management Board, to be achieved by 30 June 2017. At the time of determining these targets in 2015, 8 % of executives on the first management level and 18 % on the second management level were female; these quotas changed to 7 % and 18 %, respectively, by the end of 2016.

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

In 2016, no transactions in HSBC Trinkaus & Burkhardt shares, or any rights to those shares which would require a disclosure under section 15 a of the WpHG and subsection 6.3 of the Corporate Governance Code, have been made by persons who are subject to a reporting requirement.

Continuous monitoring

We have entrusted the Bank's Company Secretary with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2016 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the Corporate Governance Code.

Declaration pursuant to section 161 of the German Public Limited Companies Act (AktG) of the Management Board and the Supervisory Board regarding the German Corporate Governance Code

The Management Board and the Supervisory Board of HSBC Trinkaus & Burkhardt AG declare that, subject to the exceptions and/or modifications as set out below, they have complied with the recommendations of the 'Government Commission for the German Corporate Governance Code', as published in the official section of the web-based Federal Gazette in the version of 5 May 2014, and that they will continue to comply with this Code in the future.

The provisions in sections 4.2.4 and 4.2.5 of the Code concerning disclosure of personalised remuneration details for members of the Management Board are not applicable to the Bank since the General Meeting on 5 June 2012 resolved, with the requisite three-quarters majority, to refrain from disclosing such personalised information.

Section 5.4.1 is not implemented, to the extent that it provides for an age limit for Supervisory Board members. Such a limitation would needlessly restrict the Company's flexibility, since a fixed age limit would require a change in Supervisory Board membership even when a member, notwithstanding his or her age, was performing highly valuable services for the Bank.

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

Furthermore, the Company has refrained from adopting the recommendation of the Government Commission in sentence 3 of section 5.4.3 of the Code that the shareholders should be notified, in advance, of the candidates for an upcoming election of the chairperson of the Supervisory Board. According to the Articles of Association of HSBC Trinkaus and Burkhardt AG, the term of office for which members of the Supervisory Board are elected ends on the same date for all members, so that new elections at the end of a term are automatically new elections of the entire Supervisory Board. Upon such a complete new election, the newly-elected members convene immediately after the Annual General Meeting in which the election took place in order to appoint one of their number as the chairperson.

An earlier announcement of the candidates for the chairmanship by the old Supervisory Board (as recommended by the Code) would pre-determine and limit the freedom of the new Supervisory Board to appoint its chairperson. Even though the newly elected Supervisory Board would not be bound by the announcements of candidates for chairmanship proposed by the old Supervisory Board, any deviation from such proposals would result in negative publicity detrimental to the Bank.

The recommendation in section 5.4.6 concerning disclosure of individual remuneration details pertaining to Supervisory Board members (including fees for personal advisory or intermediation services rendered) in the Corporate Governance Report, has not been adopted. The Group Management Report of HSBC Trinkaus & Burkhardt AG contains details regarding the remuneration of Supervisory Board members. Such disclosure would constitute a gross interference with Supervisory Board members' right of privacy – particularly with respect to fees for personal services rendered, such as advisory services – without a strict necessity for such interference.

The Government Commission's Recommendation in section 6.1 is applied, with the clarifying note that parity of information between shareholders, financial analysts and comparable recipients is limited to information which may have an impact on the share price. For the purpose of clearly defining the scope of 'passing on of information', expressions of opinion by members of the executive bodies in the press and other media, as well as background discussions with financial analysts and rating agencies, do not constitute 'new facts' within the meaning of section 6.1 of the Code.

Varying from section 7.1.2, HSBC Trinkaus & Burkhardt AG will observe the statutory deadlines for the preparation of its consolidated financial statements and interim reports, to enhance its timing flexibility in preparing such statements and reports.

Düsseldorf, February 2017

For the
Management Board:

Carola Gräfin v. Schmettow
Chairwoman

For the
Supervisory Board:

Andreas Schmitz
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, 21 February 2017

Carola Gräfin v. Schmettow   Dr Rudolf Apenbrink   Paul Hagen   Norbert Reis

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Key Dates / Imprint

14 June
Annual General Meeting

2 August
Press conference on
Interim Report as at 30 June 2017

31 August
Interim Report as at 30 June 2017

Subject to changes

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Layout/Production
MPM Corporate Communication Solutions, Mainz

Photos
Katrin Binner, Frankfurt

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

Interpretation and evaluation of statements about the future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. The information is based on the consolidated figures at the close of the 2016 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our consolidated financial statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included. In addition, this publication contains statements of our expectations concerning our Group's progress during 2017. Such statements about the future can be found above all in the letter from the Management Board to our shareholders in the 'Outlook and Opportunities' section, in the section on our company's strategy as well as in many other places throughout this Annual Report. These statements about the future are based on our assessments of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans. All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the 2017 financial year becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m

	2016	2015	2014	2013	2012
Total assets	**23,084.8**	**21,670.5**	**22,146.4**	**19,775.4**	**20,047.8**
Assets					
Cash reserve	1,107.3	690.2	616.4	1,133.7	265.0
Loans and advances to banks	1,255.9	1,186.3	1,494.6	1,643.4	1,551.2
Loans and advances to customers	8,457.9	7,848.0	6,509.5	4,824.6	4,529.1
Trading assets	6,561.9	5,930.5	7,327.8	6,753.6	8,261.5
Financial assets	5,351.0	5,688.6	5,856.5	5,095.0	5,068.3
Share of profit in associates	0.0	0.5	20.3	54.5	55.1
Property, plant and equipment	105.3	104.2	97.6	83.8	80.6
Intangible assets	12.5	9.2	10.6	15.9	23.7
Taxation recoverable	50.4	32.0	9.1	6.4	1.2
current	14.0	6.9	1.5	5.2	1.2
deferred	36.4	25.1	7.6	1.2	0.0
Other assets	182.6	181.0	204.0	164.5	212.1
Liabilities					
Deposits by banks	1,786.2	752.4	875.3	1,269.4	1,219.5
Customer accounts	13,623.3	12,928.8	13,093.9	12,219.1	11,880.4
Certificated liabilities	45.4	10.0	10.0	10.0	10.0
Trading liabilities	4,499.8	5,148.7	5,424.5	4,099.9	4,721.9
Provisions	173.2	138.6	167.2	142.7	136.6
Taxation	43.9	35.0	32.2	39.9	65.8
current	43.9	35.0	32.2	39.9	53.4
deferred	0.0	0.0	0.0	0.0	12.4
Other liabilities	235.3	249.0	176.5	191.2	275.0
Subordinated capital	437.7	458.2	458.2	357.3	353.4
Shareholders' equity	2,240.0	1,949.8	1,908.6	1,445.9	1,385.2
Income statement					
Net interest income*	211.4	201.7	174.7	165.8	175.7
Net loan impairment and other credit risk provisions	4.4	0.2	4.0	10.9	0.9
Share of profit in associates	0.0	0.1	0.2	0.3	–8.1
Net fee income	474.7	441.2	389.7	401.1	383.7
Net trading income*	78.7	75.1	105.8	95.7	161.8
Administrative expenses	567.9	530.4	494.0	486.2	495.0
Income from financial assets	24.9	15.0	21.8	16.3	9.1
Net other income	12.5	14.9	17.6	37.0	–8.4
Pre-tax profit	229.9	217.4	211.8	219.1	217.9
Tax expenses	74.4	65.3	67.1	63.8	85.9
Net profit	155.5	152.1	144.7	155.3	132.0

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

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