Annual Report 2018

HSBC Trinkaus & Burkhardt-Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2018	2017	Change in %
Results in €m			
Operating revenues*	735.4	781.0	– 5.8
Net loan impairment provisions in the lending and securities business	– 5.1	23.9	> 100
Administrative expenses	573.5	559.2	2.6
Pre-tax profit	171.1	251.3	– 31.9
Tax expenses	53.5	78.5	– 31.8
Net profit	117.6	172.8	– 31.9
Balance sheet figures in €m			
Total assets	24,284.1	24,278.9	0.0
Shareholders' equity	2,273.1	2,296.4	– 1.0
Ratios			
Cost-efficiency ratio in %	77.5	67.0	–
Return on equity before tax in %	7.6	11.8	–
Net fee income in % of operating revenues	58.6	62.0	–
Funds under management and administration in €bn	263.8	265.8	– 0.8
No. of employees at the reporting date	3,093	2,879	7.4
Share information			
Number of shares issued in million	34.1	34.1	
Dividend per share in €	2.50	2.50	
Earnings per share (€)	3.18	4.80	– 33.8
Share price at the reporting date in €	57.50	73.21	– 21.5
Market capitalisation at the reporting date in €m	1,960.1	2,496.5	– 21.5
Regulatory ratios**			
Tier 1 capital in €m	1,817.0	1,924.1	– 5.6
Regulatory capital in €m	2,263.2	2,208.1	2.5
Risk-weighted assets in €m	16,953.3	15,210.0	11.5
Tier 1 capital ratio in %	10.7	12.7	–
Regulatory capital ratio in %	13.4	14.5	–

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

Annual Report 2018

HSBC Trinkaus & Burkhardt-Group

Date of issue:
April 2019

HSBC Trinkaus & Burkhardt AG
Königsallee 21/23
40212 Dusseldorf

Tel. +49 211 910-0
Fax +49 211 910-616

info@hsbc.de
www.hsbc.de

Contents

Executive and Supervisory Bodies

Dear Shareholders,

We invested a lot and expanded our market position in the 2018 financial year, strengthening our capital base and taking on new employees. The Bank is set for growth, even though not all divisions were able to increase their revenues in the latest financial year. We experienced growth primarily in our corporate banking and securities services business. Our stand-alone feature again met with major demand from our clients in 2018. As 'Leading International Bank' we are able to access the international network of the HSBC Group in 66 countries worldwide and are at the same time firmly rooted in the German market with a tradition going back more than 230 years. This strategic orientation for German companies paid off in 2018 as well: Global revenues with German corporate companies (MMEs and Global Banking) grew by over 10 %.

But 2018 was a difficult year, characterised by global uncertainty and challenging markets.

As expected, the difficult environment for fixed-interest investments and foreign exchange, the impact of converting accounting to IFRS 9 and the absence of positive non-recurring effects pushed pre-tax profit down considerably. Pre-tax profit reached €171.1million after the record result of €251.3million the previous year. Firstly, impairments of €14.0million were included in the income statement for the first time in 2018 under IFRS 9; secondly, the prior-year figure was influenced positively by one-time disposal gains of €35.6million. At €167.0million the operating result at HSBC Germany was 15 % down on the prior-year figure of €197.9million in the 2018 financial year.

Despite the continuing pressure coming from the low interest rate environment in the 2018 financial year, net interest income was up by 9.1 % to €216.1million (2017: €197.9million). This is due primarily to a higher lending volume with growing income in the area of receivables finance. For this form of financing, based on factoring, the Bank invested in a high-performing platform, providing an electronic link to clients and automating processes, thus leading to market share gains and strengthening the division's technological expertise

Loans and advances to customers grew by 15 % in the financial year to €10.7billion (2017: €9.4billion). The Bank sees further growth potential here, as large portions of the existing credit lines have not yet been exhausted. It also continues to apply high standards when assessing default risks. Net reversals of €5.1million were recognised in the income statement as net loan impairment provisions in the lending and securities business.

There was particularly strong growth in the Commercial Banking segment – the business with mid-market enterprises. Driven by the lending business, which was expanded by 15 % throughout the Bank, the result in the Commercial Banking grew by over 30 %.

The result remained below the prior-year level in the traditionally strong fee-based business. Demand for fixed-income products and alternative investments in particular was lower among customers due to concerns about rising interest rates. The Bank has therefore joined the ranks of other international institutions. On the other hand, our market share in the bond business remained stable at 10 %, putting the Bank among the top 3 banks in Germany and Austria. Net fee income of €430.7million was 10.8 % below the prior-year figure of €482.9million. Most of this decline is attributable correspondingly to the Global Banking & Markets segment, with a result down by 34.1 %.

Income generated from trading with equities improved slightly, on the other hand, with investment certificates and trading products recording the largest volumes. The less favourable trend in spreads also made itself felt in trading with fixed income securities. Net trading income of €72.3million was therefore lower than the prior-year figure of €83.9million overall.

The Capital Financing segment, which is part of GBM, was able to carry on from the good result generated the previous year from the business with equity and outside capital-based corporate financing transactions and increase net fee income by €2.5million to €45.2million (2017: €42.7million). In terms of fee income the Bank is among the top 10 in Germany and has moved up five places compared to 2017.

The Bank again increased its market share in the securities services business, also part of GBM. The overall volume managed in the custody business grew by a good 20 % to €572.1billion, while the depositary business reported a strong increase in volume of around 25 % to €221.5billion. In the securities settlement business the number of transactions grew by 9 % to 60 million. Net income from the securities service business was up by 5 % overall to €142.9million (2017: €135.7million).

We are also gaining market shares in the private banking business, acquiring almost half a billion mandates. However, the restraint being exercised by investors was also reflected in the Private Banking & Asset Management segment. The Bank is still not passing negative interest rates onto its private clients.

HSBC Germany is paving the way for further growth by investing in personnel and IT, benefiting from the fact that we are an attractive employer. The number of employees grew over the course of the year from 2,879 to 3,093. We now have around a fifth more employees than five years ago. Several large-scale projects also got under way in the 2018 financial year, such as the replacement of the core banking system. The integration of securities processing for Commerzbank is also going ahead at full speed, and the first test transactions via the HSBC infrastructure were carried out successfully.

We have introduced strict cost discipline in all divisions of the Bank, as reflected in the only slight increase in administrative expenses overall. Expenses increased by 2.6 % in the 2018 financial year to €573.5million (2017: €559.2million), due above all to the increase in the number of employees.

By strengthening our capital, we are manifesting our growth plans. At the end of the 2018 financial year the Bank further strengthened its regulatory Tier 2 capital by €200million by means of a subordinated capital contribution from HSBC Bank plc. We have therefore reacted to the increase in risk-weighted assets, the result in particular of the expansion of the lending business. In January 2019 HSBC Germany also increased additional Tier 1 capital by €200million.

Its total assets stood at €24.3billion as at 31 December 2018, the same figure as at 31 December 2017. Customer deposits represent more than 60 % of this figure. 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.

The Bank's capitalisation remains appropriate, as indicated by the Tier 1 capital ratio of 10.7 % (12.7 %) and the regulatory capital ratio of 13.4 % (14.5 %). The raising of Additional Tier 1 capital in January 2019 will improve the ratios again. The return on equity before tax of 7.6 % is down on the previous year (11.8 %).

As the Management Board team, we are pleased to have acquired Nicolo Salsano, a highly experienced and internationally networked investment banker. He took over responsibility for the Corporate & Institutional Banking division with effect from 1 October. With his wide range of expertise he will expand our successes to date and further integrate the Bank into the HSBC Group.

We want to continue our growth course in 2019 as well. The Bank is expecting a single-digit increase in net revenues for 2019, driven by growth in all business divisions. Our further major investments in client projects and modernising our IT infrastructure will put pressure on the result this year as well, until they lead to higher revenues in time. HSBC Germany is expecting a pre-tax profit for 2019 which is likely to be more or less on the prior-year level. The return on equity will again be below the 10 % mark.

Our employees again provided evidence of their excellence and major commitment in 2018 enabling the Bank to gain market shares even in a difficult market environment. In terms of quality and service we are the undisputed leader in the Greenwich bond market survey and also in the certificate awards. We are very grateful for this and highly appreciate this strong commitment.

We would like to thank our shareholders for their support, loyalty and trust. Even though the difficult market environment has been reflected in our figures, we are highly confident that we will be able to stabilise our revenues again and expand our business across all divisions. Finally, we want to continue to pay our shareholders an appropriate dividend. We will propose to the Annual General Meeting the payment of an unchanged dividend of €2.50 per share.

Yours faithfully,

The Management Board

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

Fredun Mazaheri **Nicolo Salsano** **Dr. Jan Wilmanns**


01
02
03

The Management Board

01 Dr. Jan Wilmanns

02 Carola Gräfin v. Schmettow

03 Paul Hagen

04 Dr. Rudolf Apenbrink

05 Fredun Mazaheri

06 Nicolo Salsano

The Management Board

01 Carola Gräfin v. Schmettow
CEO, responsible for Global Markets and Global Research

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

03 Paul Hagen
Responsible for Finance and Operations

04 Fredun Mazaheri
Responsible for Risk Management

05 Nicolo Salsano
Responsible for Corporate & Institutional Banking

06 Dr. Jan Wilmanns
Responsible for Markets – Institutional & Corporate Clients


01


02


03


04


05


06

01

02

Executive Committee

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

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

Our Values

The company

HSBC Germany is part of the HSBC Group, one of the world's leading commercial banks. As the 'Leading International Bank' the Group has a network in 66 countries worldwide which account for more than 90 % of global economic output.

HSBC Germany's clients are companies, institutional clients, the public sector and high net worth private clients. The Bank itself operates as HSBC Trinkaus & Burkhardt AG and stands for internationality, comprehensive advisory expertise, major placement power, first-class infrastructure and capital strength. The 'AA-' (stable) rating is the best Fitch rating of a private commercial bank in Germany.

HSBC Germany was founded in 1785 and has more than 3,000 employees in Dusseldorf and at a further eleven locations.

What makes us what we are

A company's reputation depends on the actions of each individual. We would therefore like to support our employees in acting with conviction and in an ethically correct manner. We want to respond to the expectations of society, into which we are integrated with our employees. And we also want to meet the high demands of our clients, our shareholders and the supervisory authorities with a stable set of values.

We have committed ourselves to sustainability. This means that we gear our business activities to the long term and take social, ecological and economic aspects into consideration in the decisions we make.

With the principle of 'courageous Integrity' we help our employees to have the courage to take the right decisions. In the event of conflicting interests, our staff can rely on our HSBC Charta, which supports them when making decisions. All of our actions are based on the central values of reliability, openness and solidarity with society and each individual. They define our understanding of good conduct.

We claim to have a pioneering role in fighting financial crime, and therefore observe our Global Standards. And we also act in keeping with our Conduct Programme, which focuses on fairness, regularity and transparency. Together with our global network of clients and service providers, we-want to protect a world which is full of (business) opportunities.

Long-term orientation – sustainability
Sustainability is a cornerstone of our strategy. From sustainable finance to social commitment through to ecological business operations, sustainability runs through all of our activities. We pay particular attention to developing those abilities, business innovations and climate-efficient solutions that are urgently required to lastingly secure prosperity for all, thus doing justice to our responsibility as an international bank.

Balanced decisions – courageous integrity
All of the decisions we take every day are taken in keeping with our values. 'Courageous integrity' is therefore regarded as an overriding value. Courageous integrity means having the courage to make decisions without being afraid and without waiting for specific instructions, but also without compromising the ethical guidelines and integrity for which the company has already stood since it was founded.

The principle of courageous integrity encourages employees to take responsibility for their own actions and includes trust, honesty, responsibility and sense of duty. It therefore helps our employees to stand up for what is correct and protect the Bank from what is wrong in everyday working life.

High standards of conduct – HSBC Charta
Sometimes the correct decision is not obvious and conflicting interests have to be weighed against each other. The decisions we make today can still have repercussions years later. HSBC has therefore developed a Charta which helps the employees in such situations. It is not meant as a set of rules, but contains simple questions which we can ask ourselves when taking difficult decisions, making it easier for us to find out what is important and correct.

We set the highest standards of conduct so that our clients and employees can be proud of our company.

Central values – reliability, openness and solidarity
We have determined our understanding of good conduct with the three central values – reliability, openness and solidarity with the company and each individual.

Reliability and consistency in our actions

- We keep to our promises, act with integrity and are trustworthy.
- We take on personal responsibility, make decisions, use our common sense and support others in their good intentions.

Openness for dialogue and other opinions

- Our communication is characterised by openness, honesty and transparency. We create a culture of open communication of risks, face challenges positively and learn from our mistakes.
- We appreciate the value of diversity and equal opportunities irrespective of gender, age, family situation, religion or ethical or social origins.
- We listen, are fair, act with integrity and appreciate other opinions.

Solidarity with clients, society, supervisory authorities and employees

- We establish relationships, take the interests of the public and supervisory authorities into consideration and work together across borders.
- We look after the individual and his/her development, are respectful, helpful and accommodating.

Pioneering role – fighting financial crime

We have the fundamental obligation to protect the integrity of the financial system, upon which we are all reliant.

By introducing the 'Global Standards', HSBC as a group has set itself the goal of establishing the most effective controls for avoiding financial crime. We have already achieved a lot with these standards in recent years.

With the slogan 'Together protecting a world of opportunity', HSBC places two further aspects at the centre of attention: the responsibility that HSBC as a global bank assumes towards its clients, society, but also the global economy and its growth, and the role of each individual employee.

Protecting a world of opportunity

HSBC services more than 38 million clients in 66 countries. And clients are confronted with financial crime every day. As the 'Leading International Bank' HSBC sees itself as the pioneer in fighting against financial crime, claiming to set the industry standards.

In a complex world and a globally functioning financial system, the fight against financial crime is all the more successful if all are aware of their role and work together. HSBC uses its knowledge and its global presence to fight financial crime, therefore also performing the important task of protecting the clients, in the countries and societies in which the Group operates.

We see it as our duty that not only all HSBC employees understand the risk of financial crime and counteract it, but also the entire industry. With our Bank's reach, our expertise and our employees, we contribute to maintaining a world full of opportunities.

Our self-image – focus on the client

Alongside fighting financial crime through the 'Global Standards' programme, we have given ourselves a 'Conduct Programme', in which we oblige our employees to ensure fair results for our clients and work towards the regularity and transparency of the financial markets. We are implementing this compliance agenda at HSBC Germany with firm conviction and extensive commitment.

We are aware that we can look back on a 230-year history as we act sustainably for our clients. Our bank focuses on them. The consistently outstanding client satisfaction and the long-term client relationships are proof of our reputation and the trust that is placed in us.

Supervisory Board

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

Voting members:

- **Andreas Schmitz**, Dusseldorf
Chairman
Former Chairman of the Management Board,
HSBC Trinkaus & Burkhardt AG

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

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

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

- **Anna Dimitrova*****, Dusseldorf
Chief Finance Officer & Director Strategy,
Vodafone GmbH

- **James Alasdair Emmett******
(since 22 November 2018)
Group General Manager,
Chief Executive Officer HSBC Europe,
HSBC Bank plc, London

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

- **Dr. Hans Michael Gaul**, Dusseldorf
(until 30 June 2018)

- **Siglinde Klaußner***, Meerbusch
Employee
HSBC Transaction Services GmbH

- **Dominik Kraft****, Sonsbeck
Bank employee

- **Friedrich Merz**, Dusseldorf
Lawyer

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

- **Dr. Eric Strutz**, Berg

- **Carsten Thiem***, Dusseldorf
Bank employee

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

- **Daniela Weber-Rey**, LL.M., Frankfurt
Lawyer

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

Supervisory Board Committees

Remuneration Committee

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

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

- **James Alasdair Emmett******
  (since 6 December 2018)
  Group General Manager,
  Chief Executive Officer HSBC Europe
  HSBC Bank plc, London

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

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

Audit Committee

- **Dr. Eric Strutz**, Berg
  Chairman

- **Dr. Hans Michael Gaul**, Dusseldorf
  (until 30 June 2018)

- **Andreas Schmitz**, Dusseldorf
  ((since 6 December 2018)
  former Chairman of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Daniela Weber-Rey**, LL.M., Frankfurt
  Lawyer

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

Deputy members:

- **Friedrich Merz**, Dusseldorf
  Lawyer

- **Carsten Thiem***, Dusseldorf
  Bank employee

Risk Committee

- **Dr. Eric Strutz**, Berg
  Chairman

- **Dr. Hans Michael Gaul**, Dusseldorf
  (until 30 June 2018)

- **Andreas Schmitz**, Dusseldorf
  (since 6 December 2018)
  former Chairman of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- **Daniela Weber-Rey**, LL.M., Frankfurt
  Lawyer

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

Deputy members:

- **Friedrich Merz**, Dusseldorf
  Lawyer

- **Carsten Thiem***, Dusseldorf
  Bank employee

Nomination Committee

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

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

- **James Alasdair Emmett******
  (since 6 December 2018)
  Group General Manager,
  Chief Executive Officer HSBC Europe
  HSBC Bank plc, London

Mediation Committee

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

- **James Alasdair Emmett******
  (since 6 December 2018)
  Group General Manager,
  Chief Executive Officer HSBC Europe
  HSBC Bank plc, London

- **Dominik Kraft****, Sonsbeck
  Bank employee

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

Situation as at 31 December 2018

* elected by the employees
** appointed as a replacement by way of court order by the Dusseldorf Local Court of 12 September 2017, adopted on 13 September 2017
*** appointed as a replacement by way of court order by the Dusseldorf Local Court of 20 December 2017, adopted on the same day
**** appointed as a replacement by way of court order by the Dusseldorf Local Court of 22 November 2018, adopted on the same day

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

Dr. Guido Colsman
Managing Partner,
Pfeifer & Langen Industrie- und Handels KG

Heinrich Deichmann
Chairman & Chief Executive Officer,
Deichmann SE

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

Eckhard Forst
Chairman of the Managing Board,
NRW.Bank

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

Dr. Hans Michael Gaul

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

Wolfgang Haupt
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Bernd Hirsch
Chief Financial Officer,
Bertelsmann SE & Co. KGaA

Axel-Rainer Hoffmann
Member of the Management Board,
VOLKSWOHL BUND Versicherungen

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

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

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

Dr. Wolf-Rüdiger Knocke
Chairman of the Supervisory Board,
NÜRNBERGER Beteiligungs-Aktiengesellschaft

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

Franz-Josef Kortüm
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

Dipl.-Kfm. Thomas Löhning
Managing Director,
Versorgungswerk der Architektenkammer NRW

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

Udo van Meeteren

Dr. Markus Michalke
Managing Partner,
Alveus Beteiligungen GmbH

Hildegard Müller
Chief Operating Officer Grid & Infrastructure,
innogy SE

Karsten Müller-Uthoff
Consultant

Marcus Nagel

Dr. Axel Nawrath
Chief Executive Officer of the Management Board
L-Bank

Werner Nicoll
Member of the Management Board,
ARAG SE

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

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

Peer Schatz
CEO,
QIAGEN GmbH

Carola Schroeder
Member of the Management Board,
Barmenia Versicherungen

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

Professor Dr. Klaus Schweinsberg
Centre for Strategy and Higher Leadership

Stephan Seifert
Chairman of the Executive Board,
Körber AG

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

Peter Vinnemeier
Co-Founder,
trivago N.V.

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

Dr. Jürgen Voß
Chief Financial Officer,
NÜRNBERGER Beteiligungs-Aktiengesellschaft

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 12 active companies, the parent company being HSBC Trinkaus & Burkhardt AG. The HSBC Germany brand is used in our external media profile, meaning the HSBC Trinkaus & Burkhardt Group.

HSBC Trinkaus & Burkhardt Group

Internationale Kapitalanlagegesellschaft mbH Dusseldorf	HSBC Global Asset Management (Deutschland) GmbH Dusseldorf	Grundstücksgesellschaft Trinkausstraße KG Dusseldorf
HSBC INKA Investment-AG TGV Dusseldorf	HSBC Global Asset Management (Österreich) GmbH Wien	Trinkaus Private Equity Management GmbH Dusseldorf
HSBC Transaction Services GmbH Dusseldorf	HSBC Global Asset Management (Switzerland) AG Zürich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Dusseldorf
HSBC Operational Services GmbH Dusseldorf	HSBC Trinkaus Real Estate GmbH Dusseldorf	

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.

We had a total of 3,093 employees at the end of 2018, compared to 2,879 at the end of the previous year. This represents an increase of 7.4 %. At the end of 2018 we were also paying retirement, widow's and orphan's pensions to 597 recipients, compared to 605 at the end of the previous year.

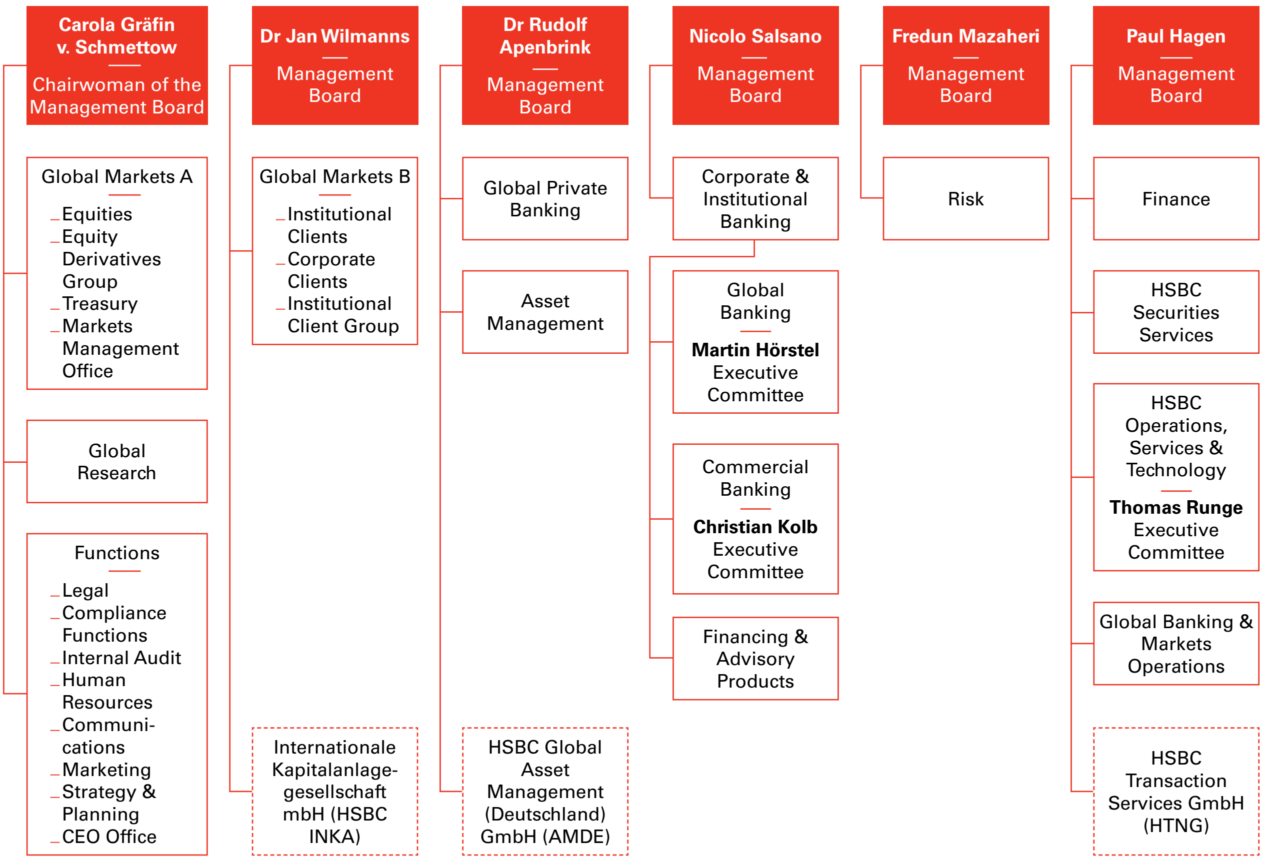
The business divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas.

Nicolo Salsano was appointed to the Management Board of HSBC Trinkaus & Burkhardt AG with effect from 1 October 2018, taking over responsibility for the Corporate and Institutional Banking division. He replaces Norbert Reis, who left the Management Board upon his own request with effect from 31 December 2017.

The Management Board members are assisted by Mr. Martin Hörstel and Mr. Christian Kolb as members of the Executive Committee. The assignment of responsibilities in the following organisational chart applies not only to the parent company and its branches, but also to the subsidiaries.

Management Board



Overview of our strategy

Business strategy

The latest financial year presented HSBC Germany with challenges. The difficult market environment combined with the Bank's investments in future growth put pre-tax profit under pressure. Banks are also having to change with the modified market environment. Sustainable management, a robust business model and at the same time investments in future sustainability are required. HSBC Germany is well positioned as a locally strong commercial bank in combination with the international service capacity and capital strength of the HSBC Group. Our strategic orientation as 'Leading International Bank' for our clients also paid off in 2018, a difficult year for banks. As part of this banking group the Bank is still the highest rated private commercial bank in Germany with a 'AA- (Stable)' Fitch Rating. This confirms the solid foundations of our successful business strategy, which secures the strength of the Bank required in the long term, even in challenging times.

The general setting in the German banking market remains challenging: The extremely low interest rate environment in historical terms continues to put considerable pressure on banks in respect of their operating earnings power. If at all – the anticipated change in European monetary policy is expected only in the second half of 2019. Regulatory control of the banking sector continues to have a considerable impact on business models in the banking sector in part. The MiFID II financial instruments directive is an important topic for our Global Banking & Markets and Private Banking business. We are cushioning reductions in earnings due to stricter regulatory requirements in our business model, which is geared towards the securities and foreign exchange business, by diversifying in the corporate banking business. The declining growth rates in global trade to be expected represent a further burdening factor. Due among other things to Brexit and US policy, the possible isolation of individual economic regions could put further pressure on international trade. As an example, the continuing trade conflict between the US and China is to be mentioned here. After 1.5 % in 2018, the growth forecast for the German economy of 1.2 % in 2019 is again lower. The German banking market remains highly competitive. Innovations from the FinTech segment have the potential to permanently change client behaviour. Efficient digital solutions for traditional banking products can put considerable pressure on margins. The growing interest of foreign service providers in the German market is stepping up the competition significantly.

In order to meet these challenges, we are consistently implementing our 'Germany 2020' strategy. Our centrepiece is the corporate vision of the 'Leading International Bank'. The key points of 'Germany 2020' are:

- We are focusing even more strongly on the profitability of client relationships. For this purpose, we want to increase our share of wallet, in other words the share of the client's entire budget for banking products, and establish ourselves as the top-3 bank for our clients.
- We work together across the divisions and transfer business to other segments.
- We are expanding our leading position as arranger of business for the other country units of the HSBC Group.
- We are investing in our IT and in the improvement of our processes in order to increase the efficiency of our organisation and offer our clients efficient modern systems.
- We want to further strengthen our still strong position in the business with institutional clients, as it is a main pillar of the Bank's entire client-oriented business model.

'Germany 2020' also bore fruit in the latest financial year, expressed in the stronger focus on our target clients as well as greater efficiency as a result of merging the formerly separate CMB and Banking segments. HSBC Germany is also strengthening its position in the market for securities services with the planned acquisition of Commerzbank's securities settlement business. The Bank will therefore make more efficient use of its IT platform, strengthen its technological service capacity and be able to make the clients even better offers. In addition, HSBC Germany will ensure that it is able to offer existing and future clients the entire value chain relating to the purchase, safekeeping and management as well as the sale of securities under one roof in future as well. This market positioning paves the way for the expansion of the custodian bank volume and the activities in securities settlement for further mandates.

After the volume-driven growth phase to gain market shares in the years from 2013 to 2016, the Bank has been focusing on qualitative growth and a return-oriented strategy since implementing 'Germany 2020' in 2016. 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. We also positioned ourselves as one of the leading banks in terms of fee income in the challenging latest financial year. This is our major strength, especially in the current low interest rate environment.

Our greater focus on profitability is also necessary, not least because the implementation of tougher regulatory requirements as well as the specifications of the HSBC Group (Global Standards) to fight financial crime are accompanied by costs, which require higher minimum revenues per client.

In order to support the client relationship teams in cross-selling, the product range and cross-divisional cooperation is being expanded further and improved. The successful establishment of the Leveraged Acquisition Finance and Mid Market Financial Sponsors divisions, which arose in the wake of the growth strategy, confirms our strategy. This orientation enables us to support our clients in the event business. Cross-selling is also being expanded by cross-divisional cooperation, for example between Corporate and Institutional Banking and Private Banking. The successful arrangement of business between the divisions shows that we can leverage the potential of a client relationship and expand the benefits for the client with our product diversity and expertise. The Bank's balanced business model is a further success factor. 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. In Private Banking important client relationships are being established with business approaches in many areas of the Bank. Asset Management is an important element of the service portfolio, in particular for the Bank's institutional clients.

The Bank has already proven under 'Germany 2020' that it is able to improve both local and also Group-wide revenues through the close cooperation of the divisions. We have successfully expanded 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, and thus increased the profitability of the client relationship on global level. The focus is and will remain on the global view of the business, so we are being guided by a global in addition to a local profitability perspective. As the 'International Market' of the HSBC Group, we are a substantial part of the overall strategy and important in our contribution to the HSBC Group revenues here, as well as a strategic link to German corporate and institutional clients.

Processes are being consistently optimised in order to relieve customer service officers from the increasing burden of administrative tasks and reduce costs at the same time. Further steps towards rationalisation and increasing efficiency have already been taken by standardising processes and offshoring to the HSBC service centre in Krakow. The investments in a new core bank system initiated in 2017 will make a decisive contribution to further optimising processes throughout the Bank and achieving efficiency gains.

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, Global Liquidity & Cash Management (GLCM) and Global Trade & Receivables Finance (GTRF) product segments closer together under one management and therefore better address the special features of the German corporate client market. The resulting area of responsibility 'Corporate and Institutional Banking' (CIB) enables a uniform presence and improved access for internationally oriented companies to our products and the services of the HSBC Group worldwide. It will create additional impetus for growth in the corporate banking business. At the same time the Bank can now use existing synergies and reduce complexity.

The long-standing and trusting business relationships with our customers as well as their positive feedback on our strategy strengthen our conviction that we are on the right track. This gives us the confidence to continue along the path we have embarked upon. The results of the employee survey also confirm the good internal perception of the ‘Germany 2020’ strategy. Our employees look forward very positively to the future of HSBC Germany, as in the previous year as well.

Our success remains based on:

- Our stable foundation of values such as reliability, openness and solidarity with society and each individual
- Our strong capital base, also with respect to future regulatory requirements
- Our long-standing and motivated staff
- Our products and services which meet with our customers’ satisfaction
- Our integration into the HSBC Group

So we are shaping our future success in the spirit of our more than 230-year tradition.

The control system

1. Explanation of the control system

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

In addition to the highly-aggregated ratios presented below, the Bank also has 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 of the appetite for risk as the basis for the annual operating budget by the Management Board, 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
In order 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, profits and losses from the sale of financial assets measured at amortised cost, net income from other financial assets mandatorily measured at fair value through profit or loss, net income from financial assets and net other income/expense).

Return on equity
The return on equity is calculated by putting pre-tax profit in relation to average shareholders' equity over the last fifteen months (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

While 2017 was still characterised by a synchronous upswing in the global economy, economic activity slowed down in a number of emerging markets, but also in the Eurozone over the course of 2018. Driven by the strong expansion of the US economy, the global economy is nevertheless likely to have grown by 2.9 % in 2018. Supported by tax cuts for companies and consumers, GDP growth in the US should have accelerated from 2.2 % the previous year to 2.9 %. As wage and therefore also inflationary pressure turned out to be moderate despite historically low employment, there was no need for the US central bank to tighten its monetary policy. Instead, the Fed continued with its gradual course of raising interest rates in 2018 and raised the Fed funds rate in four steps by 100 BP overall to a target corridor of 2.25 % to 2.5 %, leading to the considerable flattening of the US yield curve, but also to the notable appreciation of the US dollar. In 2019 we are anticipating a further increase in the key interest rate of only 0.25 % in the second half of the year as the monetary tightening in the previous quarters, but also the discontinuation of the stimulus coming from fiscal policy, should lead to a slowdown in US growth to 2.5 %. This is therefore likely to mark the end of the current cycle of key interest rate hikes in the US.

As a consequence of the higher interest rate level in the US and the resulting appreciation of the US dollar, the financing conditions in the emerging markets have deteriorated. This has led not only to the economy cooling down, but also to greater volatility on the capital markets, which was particularly strong in Argentina and Turkey above all. The slowdown of the Chinese economy, which is likely to have grown by 6.6 % in 2018, due among other things to the trade conflict with the US intensifying, after expanding by 6.9 % the previous year, also acted as a drag on the emerging markets. The economic uncertainty in connection with the Chinese central bank easing its monetary policy led to the significant deprecation of the Chinese renminbi.

Global trade cooling down also left its mark in Europe in 2018 and is likely to have contributed substantially to the slowdown in GDP growth in the Eurozone from around 2.5 % to an anticipated 1.8 %. The introduction of new environmental standards (WLTP emission test procedure) in the automotive industry, which led to a temporary drop in production in this sector, also had a dampening effect in the second half of the year. Suffering badly from weaker global demand and the problems in the automotive sector, the growth forces in the German economy came to an almost complete standstill in the second half of the year. There was nevertheless still GDP growth of 1.5 % for the full year.

Growth in the Eurozone is likely to slow down to 1.4 % in 2019, but still be on the level of potential growth. Fiscal policy should provide supportive impetus for economic output. Although in Germany alone fiscal easing of a good €20billion is beginning to emerge, a budget surplus should again be reached in 2019. Italy is financing its easing via debts and in France the French ministry of finance is anticipating a budget deficit beyond 3 % of GDP in the meantime. A further decline in the unemployment rate, which fell below the 8 % mark most recently, is providing private consumption in the Eurozone with tailwind. The German labour market is approaching full employment even, which has led to a significant increase in wage pressure in the meantime. Consumers in the entire Eurozone are also likely to benefit over the course of 2019 from the sharp decline in the oil price in the fourth quarter of 2018 and the resulting growth in real purchasing power. The German economy is likely to again grow more slowly than the entire Eurozone in 2019 at 1.2 %.

In June 2018 the ECB announced the end of its net bond purchases with effect from the end of 2018 under the impression of a robust economy and a slight increase in price pressure. The volume of buying was reduced in an interim step from €30billion to €15billion a month starting in October. At the same time the ECB announced there would be no increase in key interest rates at least over the summer of 2019 and beyond in order to avoid a strong increase in capital market rates. The ECB's withdrawal from the primary market already made itself felt at the end of 2018 in the form of rising new issue premiums for covered and corporate bonds. On the government bond markets, the disputes between the EU and Italy regarding the Italian budget plans led to unrest. The impending introduction of a deficit procedure in the meantime led to significantly higher risk premiums for Italian government bonds. There was a notable decline in the yield on 10-year German government bonds over the course of 2018 and a lasting interest rate turnaround is not to be anticipated with a view to 2019 either. The ECB is likely to completely dispense with key interest rate hikes in 2019 and 2020 owing to the waning growth and inflation momentum.

Developments in the banking sector

The low level of interest rates, the still very strong competition and the constantly high regulation remain important challenges for the German banking landscape. Downturns in the outlook for German economic growth in view of increasing international trade conflicts will not remain unnoticed in the business of globally oriented banks. Digitalisation as a competitive factor is gaining increasingly in significance. This applies for the direct competition with new market participants and within the established financial institutions where a secure and modern IT structure is increasingly becoming a feature of differentiation.

- Since March 2016 the key interest rate in the 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 (–0.4 % since March 2016). This had direct consequences for the profitability of German banks in 2018, a sector which in Germany traditionally has its primary source of operating revenues in interest revenues. While the Federal Reserve in the US has raised the key interest rate step by step since the end of 2015, no key interest rate hike is expected in the Eurozone in 2019 and 2020.
- In June 2018 the volume of loans to companies and the self-employed stood at around €1,446billion, 4.9 % higher than in June 2017. This reflects the increase in investment activity as a result of the overall economic situation through cheap refinancing via loans. Listed companies used their access to the market. The volume of corporate bonds outstanding rose from June 2017 by around 13.7 % to €310billion in June 2018. This trend is attributable to both a larger offer and to stronger demand for corporate bonds. In a market which is still growing overall, the companies increasingly used this form of refinancing to promote and expand their business activities. The demand is being driven on the one hand by investors searching for returns in the current low interest rate environment. On the other, measures such as the bond buying programme by the Eurosystem is contributing to strong demand.

Overall, the financing terms for companies remain favourable.

- Great Britain's decision to leave the European Union brings uncertainty for the financial sector and represents a risk for German exports. The Brexit terms are still unclear. BaFin has reinforced its call to the financial sector to prepare comprehensively for a hard Brexit, in other words for a disorderly withdrawal of Great Britain from the EU at the end of March 2019. 25 applications for a German banking license are being processed at BaFin so far. The German financial centre will be able to benefit from the partial withdrawal of many banks from Great Britain. In the wake of Brexit a total of around 630 jobs have been shifted outside Great Britain so far. This figure is lower than the original estimates, as many institutions have not yet become finally active in this respect. The further developments will depend very strongly on the final Brexit terms.

- Strong competition in the German banking market remains a challenge, leading to greater pressure on profitability. Foreign banks in particular recognise Germany as an important economic location with strong export potential. They are expanding their local activities and focus frequently on the German corporate client business. In terms of the number of employees they have a notable presence on the German market. The competition is also being influenced by FinTech companies: these enter either into direct competition with the banks and offer their clients more favourable conditions thanks to efficient cost structures or change the clients' traditional demand patterns at least through their digital innovations.

- The fragmented banking industry with its low margins remains a challenge. The structural deficits of the German banking market do not allow the majority of market participants to earn their costs of capital. Surplus liquidity in the market is also increasing the pressure on margins. The weakness of leading institutions to operate profitably in the long term is the result.

- The still strict 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 very high and can only be planned with difficulty.

- The market environment will remain demanding and challenging for German banks next year as well. A turnaround in European monetary policy is not expected until 2021. At the same time, the global tensions due among other things to protectionist measures such as Brexit or the continuing uncertainty in the trade conflict between the US and China will also make themselves felt in the German economy and see to less optimistic growth. 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.

The HSBC Trinkaus & Burkhardt Group in the current environment

The 2018 financial year presented the HSBC Trinkaus & Burkhardt group with challenges. The partially difficult market environment and the restrained customer demand associated with it, above all in the securities transaction-related fee income business, put pressure on the pre-tax result.

However, the strategic orientation of the Bank remains unaffected by these developments overall. Our 'Germany 2020' strategy remains valid and is unfolding in its ambitions; the HSBC Trinkaus & Burkhardt group has been able to gain further market shares in subsegments.

'Germany 2020' is a further development of our growth initiative successfully implemented in 2013 and adjusts the goals set at that time to the current general economic setting.

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 our clients.

- Our trading activities serve primarily to support the client segments and provide a comprehensive product offer. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.

- Comprehensive know-how for innovative and client-related solutions is our strength, 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 66 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.

The successes in the wake of the implementation of our 'Germany 2020' strategy strengthen 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 €171.1million in the 2018 financial year (2017: €251.3million), representing a significant decline of €80.2million, or 31.9 %. This decline is attributable in particular to lower income in the fee-based business owing to the difficult market environment on the capital markets and the restraint of our clients associated with it in sub-segments of our product and service portfolio. On the other hand, the prior-year result includes one-time disposal gains of €35.6million generated through the sale of participating interests which are no longer required. Compared to the previous year higher net interest income in the client business owing to higher credit volumes as well as the improvement in risk provisioning had a positive impact. We had already adjusted our forecast for the 2018 financial year at the end of the first half of the year. The decline in the pre-tax result in the clear double-digit percentage region forecast for the financial year came about. Net profit for the year came in at €117.6million and was therefore 31.9 % or €55.2million lower than the prior-year figure of €172.8million.

The course of business was influenced substantially by a major increase in uncertainty on the capital markets; not least, the risk of protectionist measures with negative repercussions on global trade and German exports grew. The resulting negative impact on our clients' business activities led to significant declines in income in parts of our fee-based business. Competition continues to grow and the pressure on conditions remains in both the interest rate business and also increasingly in respect of services. The low interest rate environment is also still acting as a drag due to the further decline in average returns on our liquidity portfolio. These developments and the fact that the extraordinary income generated the previous year could not be repeated as expected are the main reasons for the decline in the result compared to the previous year.

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

Net interest income amounts to €216.1million (2017: €197.9million) and has therefore increased by a total of €18.2million or 9.2 %.

Net interest income in the client lending business improved over the previous year due to higher volumes, especially in the receivable finance business, and to a slightly higher margin overall.

Net interest income from the deposit-taking business also improved over the previous year. We were able to pass on a further proportion of the charges resulting from the negative interest environment in the Eurozone to our institutional and corporate clients. Positive effects also arose during the financial year from above-average deposits in foreign currencies, such as US dollar. We see the still very high level of deposits by our clients as evidence of the confidence they place in the Bank.

There was again a decline in interest income from our financial assets. Bullet bonds with a comparable risk profile could also only be replaced by bonds with significantly lower coupons in the 2018 market environment, maintaining our strict rules for the quality of the investments.

The markedly positive development of net interest income generated in 2018 from the Bank's interest rate and currency risk management, which we report in other interest income in line with the Bank's internal management, is offset by opposing developments in the Bank's net trading income.

Net expenses for risk provisioning in the lending and securities business was determined for the first time in 2018 according to the provisions of IFRS 9. This gave rise to net income of €5.1million in 2018. The impairments on defaulted exposures incurred expenses of €11.6million from the creation of and additions to net loan impairment and other credit risk provisions and income of €14.7million from the reversal of net loan impairment and other credit risk provisions. The other lending and securities exposures resulted in a €2.0million reversal of net loan impairment and other credit risk provisions with an effect on the income statement. By comparison, expenses for net loan impairment and other credit risk provisions under IAS 39 amounted to €23.9million in 2017. In 2017, individually assessed impairments included expenses of €34.4million from the creation of net loan impairment and other credit risk provisions and income of €2.6million from the reversal of net loan impairment and other credit risk provisions. Collectively assessed impairments featured a net reversal of €9.4million. No material direct write-offs and recoveries on loans previously written off were recorded in 2018 (2017: €1.8million incurred in respect of direct write-offs, €0.3million income from recoveries on loans previously written off). Our conservative orientation is unchanged in relation to the assessment of default risks.

Net fee income was up €52.2million, or 10.8 %, to €430.7million (2017: €482.9million).

At €83.2million, net fee income from transactions in securities and financial instruments is down significantly by €41.5million from the previous year's figure of €124.7million. Against the background of the difficult market environment, the cautious stance adopted by our customers was noticeable, especially in the business with fixed income products. In addition, the excellent results achieved in 2017 in the business with alternative investments could not be repeated.

However, the result from the securities portfolio business of €117.6million was maintained on almost the same level as in the previous year (2017: €119.5million). In a highly competitive market environment, the portfolio growth was unable to fully offset the declining terms.

Net fee income from asset management and wealth management declined by €5.2million to €73.7million (2017: €78.9million) in what continued to be a competitive environment.

Our fee-based business with foreign exchange declined slightly by €0.7million to €58.8million (2017: €59.5million), despite a significant increase in the traded volume.

The Capital Financing segment was able to carry on from the good result generated the previous year from the business with equity and outside capital-based corporate financing transactions and again increase net fee income by €2.5million to €45.2million (2017: €42.7million).

Net fee income in the lending business was down by €2.2million to €25.6million (2017: €27.8million).

Net fee income from domestic and foreign payments and from the documentary business declined slightly compared to the previous year, by €0.6million to €21.8million (2017 €22.4million).

Net trading income was down by €11.6million to €72.3million (2017: €83.9million).

Income generated from trading with equities and equity/index derivatives improved on the prior year figure by €2.7million to €54.7million (2017: €52.0million). We were once again able to generate a high volume of business in investment certificates and other trading products in the financial year.

Net trading income from bonds, money market transactions and interest rate derivatives amounted to €14.2million, which represents a sharp decline of €11.1million on the previous year (2017: €25.3million), due to significant spread widening at times.

Income generated from foreign exchange trading declined again in 2018 by €2.5million to €3.5million. The mounting switching of foreign exchange trading to automated platforms continues to impact negatively on the margins. Derivatives held in the banking book generated a net expense of €0.2million in 2018 (2017: net income of €2.0million).

We reported an increase of €14.3million or 2.6 % in administrative expenses to €573.5million (2017: €559.2million).

Due to the growth in staff numbers and general salary increases, staff expenses rose by €13.6million to €361.6million (2017: €348.0million). This development is attributable to, among other things, greater staff resources in conjunction with the expansion of our securities processing capacities and the modernisation of our IT infrastructure.

On the other hand, we succeeded in lowering other administrative expenses by €2.3million to €191.7million. Despite our investments in a modern IT infrastructure, the marked increase in expenses for the bank levy and the deposit protection scheme was more than offset by falling expenses in other cost types and the capitalisation of project expenses. Our cost discipline exercised in implementing projects and in the day-to day business is becoming increasingly important, against the background of the continued high regulatory requirements.

Depreciation of property, plant and equipment and of intangible assets amounted to €20.2million, which represents a €3.0million increase on the previous year, mainly owing to increased depreciations of hard and software.

The cost efficiency ratio stands at 77.5 % (2017: 67.0 %). As forecast at the end of the first half of the year, it is therefore above the 70 % mark. Alongside only slightly higher administrative expenses in the financial year, the declines in income shown contributed in particular to the higher cost efficiency ratio compared to the previous year.

Income from financial assets was down by €35.4million to €17.8million (2017: €53.2million). As expected, the one-time extraordinary income reported in income from financial assets the previous financial year could not be repeated.

The net loss from financial assets mandatorily measured at fair value through profit or loss reported for the first time in the financial year as a result of the adjustment to accounting standards amounted to €14.0million. This result is due to measurement losses on financial instruments that were still allocated in the previous year to the financial instruments in the "available-for-sale" category but no longer met the criteria for measurement at fair value without effect on the income statement under the provisions of IFRS 9. The result is attributable in particular to shifts on the bond markets with some considerable spread-widening during 2018.

Other operating income/expenses came to €16.3million (2017: €16.3million) and largely include rental income from our real estate. Other net income came to €0.3million (2017: €0.2million).

Tax expenses of €53.5million in the financial year under report fell by €25.0million from the previous year, thus reflecting the decline in results accordingly. This gives a tax rate of 31.3 % after 31.2 % the previous year.

Consolidated profit for the financial year is attributable in full to the shareholders of HSBC Trinkaus & Burkhardt AG.

Despite the difficult internal and external conditions, the Commercial Banking segment improved its pre-tax profit in 2018 by €17.8million to €72.3million. This documents the ongoing success of the growth strategy in the corporate banking business. In contrast, the pre-tax profits of the Global Banking & Markets and Private Banking & Asset Management segments of €83.8million and €18.2million respectively were down considerably from the previous year's good result (2017: €127.2million and €26.5million). At €–3.2million (2017: €43.1million), pre-tax profit was negative outside of the three core segments. The decline is due on the one hand to the burden arising from the financial assets measured at fair value and on the other to the non-recurring capital gains from the sale of investments that are no longer required included in the results of the prior-year period.

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

Total assets as at the balance sheet date were unchanged from the previous year at €24.3bn.

Customer deposits remain the Bank's most important source of refinancing, accounting for €14.9billion (2017: €14.6billion), or around 61.3 %, 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.

Deposits by banks of €3.3billion were €0.4billion higher compared to the previous year (€2.9billion). This is largely as a result of an increase in money market deposits (€+0.3billion).

Trading liabilities of €1.8billion are down by approx. €0.5billion year-on-year due to the decline in bonds, certificates and options disclosed under this item. The negative market values from derivative financial instruments fell by €0.3billion to €1.0billion.

Subordinated capital amounted to €580.5million after €395.3million the year before. To meet the greater regulatory requirements, the Bank further strengthened its regulatory capital at the end of the financial year with a subordinated deposit of HSBC Bank plc of €200million.

Shareholders' equity stands at €2,273.1million, which is down slightly by 1 % from the previous year's level of €2,296.4million. The Bank reached a return on equity of 7.6 % due to the weaker pre-tax profit and is therefore significantly lower than the previous year (11.8 %) and than the ten percent figure forecast for the year as a whole. As already shown in profitability, the previous year's forecast was corrected by the first half of 2018.

Issued 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. In addition to the dividend distribution, a distribution of around €13.3million was made to the HSBC Group to Additional Tier 1 (AT1) capital. The valuation reserve for debt instruments measured at fair value without effect on the income statement is €25.2million and is down by €39.6million compared with 1 January 2018 due to the partial realisation of reserves and to market developments. The valuation reserve for equity instruments measured at fair value without effect on the income statement is €6.6million and is down €0.7million compared with 1 January 2018. The valuation reserve for debt instruments measured at fair value without effect on the income statement as well as the valuation reserve for equity instruments measured at fair value without effect on the income statement were included in the valuation reserve for financial instruments in 2017. Please refer to the Note 'Change in Accounting Policies' for more details on this. The reserve for the remeasurement of net pension obligations declined by €11.6million to €–100.7million due to the falling performance of the plan assets compared with the assumption made at the start of the year.

The cash reserve of €3.8billion is slightly higher compared with the previous year for balance sheet-related reasons (+€0.1billion).

Loans and advances to banks of €1.5billion increased by €0.6billion compared to 31 December 2017. This increase is as a result of the higher cash collateral pledged in the derivatives business and higher current account balances.

Loans and advances to customers after net loan impairment and other credit risk provisions increased by a further €1.4billion from €9.3billion to €10.7billion and are therefore the largest item on the assets side of the balance sheet with a share of 44.3 % (2017: 38.5 %). This reflects the contribution being made by our growth strategy in the corporate banking business. We were able in particular to further expand the syndicated lending business (+€0.5billion) and the factoring business (+€0.5billion).

The €0.8billion decline in assets held for trading to €2.9billion is largely due to tradeable receivables (€–0.7billion). Bonds, which are exchange-traded and eligible, account for a slightly lower, but still high share of trading assets.

The decline in the positive market value of derivatives of €0.1billion to €1.3billion is in connection with the decline in the negative market value of the derivatives.

Financial assets of €3.5billion (2017: €4.9billion) declined by €1.4billion. On the one hand, €0.3billion of the financial instruments previously categorised under available-for-sale under IAS 39, that do not meet the requirements for recognising changes to fair value with no effect on income, were reported after 1 January 2018 under IFRS 9 in the new balance sheet item 'Other financial assets mandatorily measured at fair value through profit or loss'. Please refer to the Note 'Change in Accounting Policies' for more details on this. On the other hand, the decline is largely attributable to disposals and bond maturities. Financial assets consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion. Our exposure to the euro periphery states is limited in the trading portfolio and in financial assets, as well as in the item 'Other financial assets mandatorily measured at fair value through profit or loss'.

Intangible assets rose by €39.6million to €69.2million. This increase is due to our investments made in the expansion of our securities settlement capacities and in upgrading our core bank systems.

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 impacts on the one hand the risk positions as the total of risk-weighted assets (RWAs), the market risk equivalent as well as operational risk which have to be backed by capital at predefined minimum rates (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 €31.3million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 13 June 2018. At this year's Annual General Meeting on 7 June 2019 we will propose the payment of an unchanged dividend of €2.50 per share. No retained earnings were transferred. The part of the parent company's pre-tax profits over and above the dividends is allocated to retained earnings.

HSBC Trinkaus & Burkhardt AG raised Additional Tier 1 capital (AT1) in December 2016 in the form of a deeply subordinated bearer bond with unlimited maturity for the total amount of €235.0million. 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 %.

In January 2019, HSBC Trinkaus & Burkhardt AG raised further additional Tier 1 capital (AT1) in the form of a deeply subordinated bearer bond with unlimited maturity with a total notional amount of €200.0million. The bond is callable by the issuer for the first time on 1 January 2025 and features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.04 %.

HSBC Bank plc, London, which holds 80.7 % of HSBC Trinkaus & Burkhardt AG's share capital, fully subscribed and acquired both securities in the course of a private placement. In accordance with IFRS it constitutes shareholders' equity in both cases.

In December 2018, HSBC Trinkaus & Burkhardt AG raised supplementary capital in the form of a subordinated loan with a total amount of €200million with a maximum terms of ten years. The subordinated loan is callable by the issuer for the first time after five years and thereafter at every coupon date. The variable rate equates to 3-month Euribor plus a premium of 2.32 %.

The HSBC Trinkaus & Burkhardt Group had equity capital of €2,263.2million as at 31 December 2018 (2017: €2,208.1million). Tier 1 capital accounted for €1,9817.0million (2017: €1,924.1million) and Tier 2 capital for €446.2million (2017: €284.0million). Tier 1 capital consists of Common Equity Tier 1 Capital of €1.582.0million and Additional Tier 1 Capital of €235.0million.

(b) Capital requirements

The Bank's risk-weighted assets as at 31 December 2018 stood at €16,953.3million (2017: €15,210.0million), of which credit risk accounted for €14,729.2million (2017: €12,863.0million), market risk for €787.0million (2017: €969.0million) and operational risk for €1437.1million (2017: €1,378.0million). This gives a Tier 1 ratio of 10.7 % (2017: 12.7 %) and a regulatory capital ratio of 13.4 % (2017: 14.5 %). The previous year's forecast had assumed a slight decline in the capital ratios. The higher risk position in the lending business led to a more marked decline than expected. The raising of Additional Tier 1 capital January 2019 presented in the previous section will improve the ratios accordingly.

Since the Single Supervisory Mechanism (SSM) came into force in November 2013, there has been greater harmonisation of supervisory practice in Europe. Supervision is carried out directly or indirectly by the European Central Bank in close cooperation with the national supervisory authorities. HSBC Germany is still subject primarily to national banking supervision and underwent a Supervisory Review and Evaluation Process (SREP) in 2017. As the result of this process, BaFin notified the Bank in October 2017 that it had to maintain an equity ratio of at least 10.0 %. The banking supervision regularly reviews the provision of the minimum capital ratios, which may result in a higher requirement.

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. Following the revision of the CRR, the leverage ratio is expected to be set bindingly at 3.0 %. As at 31 December 2018 the Bank's regulatory leverage ratio stood at 5.3 % (2017: 5.8 %).

(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.

The Governing Council of the ECB announced a further series of longer-term financing operations (TLTFO II) in spring of 2016 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. The Bank borrowed a total of €450million in the first TLTRO II operation, a total of €300million in the second TLTRO II operation and a total of €800million in the third TLTRO II operation to refinance the targeted further growth in lending volumes.

The Liquidity Coverage Ratio (LCR) is standard throughout Europe since October 2015. The mandatory compliance rate was gradually raised to reach 100 % in 2018. The regulatory Liquidity Coverage Ratio stood at 108.5 % as at 31 December 2018 (2017: 120.3 %). The marked overfulfilment of the LCR expected in the previous year's forecast was met on an annual average. Please refer to our explanations in the Risk Report (Liquidity risks section). The value as at 31 December 2018 is lower compared with the previous year for balance sheet-related reasons.

The Bank also calculates the Net Stable Funding Ratio (NSFR). 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 is currently reported as an observation ratio and should be set at a mandatory figure of 100 % within the scope of the revision of CRR.

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

Outlook and Opportunities

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

Even if our clients 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 marked overfulfilment of the Liquidity Coverage Ratio requirements is likely to continue. The Bank has very significant scope for refinancing with the ECB and corresponding funding as a result of its participation in the Targeted Longer-Term Refinancing Operations (TLTRO).

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

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

The Bank will continue with the further expansion of its market position in particular in Corporate Banking in 2019, in accordance with our earnings-oriented growth strategy. We also plan to further expand the Institutional Banking and the Global Markets business. The more intense competitive situation in the lending business is making the client lending business far less attractive with the combination of longer loan periods required in the market, less stringent loan terms and lower margins. 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 volume targets in the client business in order to maintain the quality of the business and manage the deployment of capital in an economically sensible way.

We are expecting a single-digit percentage increase in net revenues in our base scenario for 2019 (which does not include the impact of Brexit). Growth is expected to be supported by all business divisions. We expect a slight increase again in net fee income as a result of several larger transactions in Global Banking, from increased volume in the HSBC Securities Services business and from an improvement in the Institutional Sales business. We do not want to speculate at present on whether the MiFiD II regulations will lead to a decline in the transaction-oriented securities business in 2019, for example, in Private Banking.

Expenses will grow at a rate of more than 5.0 % in 2019, as we have decided to start significant projects to improve the IT infrastructure which will go on for several years and also require comprehensive external support in addition to a large number of project staff at the Bank. Furthermore, client-oriented projects are already under way which will lead to higher revenues only with a time delay, but already put direct pressure on the cost base in 2019. We will outsource further tasks to the global service centres of the HSBC Group to realise cost savings and integrate the Bank more strongly into the HSBC Group's process chains. We expect the Bank's cost efficiency ratio to be above 70.0 % again due to the pressure on margins, the highly burdensome interest income situation, as well as the large number and size of the 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. Despite the weakening economy, stricter sector differentiation makes these risks appear to be acceptable. We anticipate significantly higher risk provisioning requirements than in the favourably performing 2018. The expansion of the target ratings in the corporate banking business will also involve higher collectively assessed impairments in addition to stronger capital backing with volumes rising. As our portfolio is characterised by differing levels of concentration, 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.

For 2019 as a whole, we expect a pre-tax profit roughly in line with that of the previous year. The return on equity before tax at will once again come in below the 10 % mark. This forecast should remain intact provided there are no surprise loan defaults; the interest, foreign exchange and equity markets are not subjected to any shocks; and if the external influences, such as Brexit, on the Bank's client-oriented business model remain controllable.

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

Risk Report

Risk management 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 and permanent handling of risks on the basis of a defined risk strategy, or 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.

The superior principle is the objective of avoiding the risk that the Bank is unable to meet its regulatory capital requirements. For this purpose, we have implemented an ICAAP process, which covers both the economic perspective as well as regulatory capital planning.

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 framework data as well as market conditions, is taken into consideration when determining our business strategy as part of the planning process. Pension risks arose for the HSBC Trinkaus & Burkhardt group from commitments based on the company pension scheme. These can be targeted as the company pension scheme is an attractive component of employee compensation that helps retain qualified personnel at the Bank.

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

The 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 near future 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 banking supervisory liquidity provisions confirm our cautious stance, even though the strategic impetus coming from monetary policy and banking regulation is partially 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. Furthermore, the ECB's expansionary monetary policy has made it easier to refinance on the capital market, but has led at the same time to a shift in the normal market credit standards, as a result of which we place particular emphasis when carrying out credit analysis on early warning systems and crisis resilience.

Owing to the favourable economic trend, the Bank's credit risk situation remained comfortable. We continue to see growth prospects within the Bank's appetite for risk, which also takes the capital base and our earnings strength into consideration. In doing so, we differentiate by the borrowers' industries.

Movements on the equity, foreign exchange and interest rate markets were again characterised by extraordinarily low volatility in 2018. The still low market risk limits set were therefore utilised to a relatively minor extent. Moreover, no backtesting anomalies were observed on trading book level in 2018.

Particular importance is being attached in the meantime to the topic of cyber security and information security management. Comprehensive programmes have been launched here at the Bank – as in the entire financial sector – to strengthen the resilience against external attacks, but also against internal information security loopholes. Banks have to counteract the increasing know-how demonstrated by potential attackers by strengthening their own defence capacity at the same time. Simultaneously, increasing employee awareness through regular training and targeted individual measures is a core element in protecting against cyber risks. We assume that these investment-intensive, continuous adjustments will put pressure on our resources and our investment budget for several years to come.

Risk culture

Risk culture is of particular importance at banks, as shown by the events that had led to the financial crisis. The management boards are responsible for the development, promotion and integration of an appropriate risk culture within the HSBC Trinkaus & Burkhardt Group. 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.

We understand risk culture as the manner in which employees (should) manage risk within the scope of their activities. The risk culture should promote the identification and conscious approach to risk and ensure that decision-making processes yield results that are balanced also from a risk perspective and in the interests of their clients.

A definitive feature of an appropriate risk culture is above all the clear commitment of the management to behaviour that is commensurate with risk, strict compliance of all employees with the appetite for risk communicated by the management, and facilitating and promoting a transparent and open dialogue within the Bank on issues that are relevant to risk. This is enshrined in the Code of Conduct.

It is decisive here 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 HSBC 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 not right in everyday life.

With its '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 2018 financial year. In addition to fighting financial crime, HSBC has 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 function managed by the CRO covers the following areas:

- Wholesale Credit & Market Risk (WCMR): WCMR is responsible for managing and monitoring market and credit risks.
- Global Risk Analytics (GRA): GRA is responsible for the market and credit risk models used in the Bank, and for their development and validation.
- Operational Risk: This area is responsible for managing and monitoring operational risks.
- Security Risk: This area is responsible for managing and monitoring the IT and cyber security risks.
- Financial Crime Risk and Regulatory Compliance: The areas are jointly responsible for managing and monitoring the compliance risks.
- Central Outsourcing Coordination & Data Protection Official: The central outsourcing coordination as well as all data protection officers are located in this area.

The function is also supported by a COO.

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, we have implemented the three lines of defence mode. This model is an organisational structure which demarcates the roles and their responsibilities depending on the tasks and activities carried out. The model applies for all employees and all types of risk. There is a clear separation between risk responsibility (first line of defence), monitoring (second line of defence) and independent confirmation (third line of defence) in order to support the bank in effective risk management (identification, evaluation, monitoring, management and communication). 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 of 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. Within the scope of the stress assessment throughout the bank in the going concern scenario, the Bank takes 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 inverted 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 and/or liquidation scenario. Because of the current political situation, we have identified growing protectionism of countries outside the EU as a possible inverse stress scenario (going concern), which could put export-oriented companies in particular under pressure and devalue the Bank's loan portfolio. Given that a stress test with a focus on exports outside of the EU had posed a threat to the risk-bearing capacity in the liquidity scenario only under very unrealistic assumptions, a counter stress test was examined instead for the liquidity scenario. This crisis scenario concerned in particular companies that are heavily dependent on sales within the EU as well as European banks and countries. Besides a downgrade of the creditworthiness, increased correlations and loss ratios were also modelled. The impact analysis of the inverse scenarios also takes compliance with the minimum capital ratios under Pillar I into account.

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 every six months in the Risk Committee of the Supervisory Board.

in €m	31.12.2018	31.12.2017
Risk cover funds	**2,354.5**	**2,404.1**
minus regulatory capital requirement	–1,654.7	–1,483.4
Unallocated risk cover funds	**699.8**	**920.7**
Risks		
Credit risk	170.3	147.0
Market risk (incl. illiquid investment risk)	82.4	98.0
Liquidity risk	18.6	20.1
Operational risk	68.0	65.2
Pension risk	1.5	1.5
Business risk	32.2	45.6
Economic capital requirement	**373.0**	**377.4**
Utilisation of unallocated risk cover funds (in %)	**53.3**	**41.0**

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. Accordingly, as at 31 December 2018 a maximum loss of €699.8million (2017: €920.7millon) can be absorbed (free risk cover funds) without infringing the minimum regulatory requirements.

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 further European standards as well as the national banking supervision requirements, the HSBC Trinkaus & Burkhardt Group is included in the group reconstruction plan of HSBC Holdings plc.

The group restructuring plan comprises a description of the legal and organisational structures, the business model, the main business activities and critical functions in the financial markets as well as the internal and external ties of the HSBC Group. 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 HSBC Group and assesses their impact on the individual Group institutions. The Trinkaus & Burkhardt group is represented in the group restructuring plan with independent capital approved by the Management Board. It shows concrete possible alternatives for the HSBC Trinkaus & Burkhardt group for burdening situations which enable the prompt return to a normal operating mode within its appetite for risk. In order to observe and identify negative developments early on, the Bank has defined constantly monitored indicators that are embedded in the Bank's risk management and guarantee that the Management Board is informed early on and that possible countermeasures are introduced in good time. Responsibilities and processes for monitoring the Bank's financial stability as well as escalation, decision-making and communication processes in the event of defined indicator thresholds being exceeded are defined in the group restructuring plan. The relevant aspects of the restructuring plan for the HSBC Trinkaus & Burkhardt group are updated annually, and also during the year if required as a result of any major changes in the Bank or in the environment.

Risk categories

Strategic and business risk

By strategic risk we mean an unexpected detrimental effect on earning power as a result of medium to long-term changes in the market environment for banks. This can include: laws, ordinances and regulatory authority requirements as well as the competitive situation, macroeconomic data, customer behaviour, technological progress and other market conditions If unexpected changes to earning power are observed not in the medium or long term but within one year, this is referred to as business risk. Strategic and business risk arises to begin with from the changed environment to which banks now have to adjust. The 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 continues to exert major pressure on the earnings situation. 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 & Burkhardt's strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities can only counteract this risk to a limited extent. We are therefore strengthening our corporate banking business and also expanding 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 as regards the Bank's strategic position as we have been able to improve our market position in all client segments in recent years. The risk premiums for counterparty default risk have fallen further. Individual banks with low demands on their return on equity continue to exercise price pressure, which places the margins under additional pressure. This trend is being strengthened above all by the ECB continuing to provide the euro money market with excess liquidity.

The low interest rate environment, which is leading to the devaluation of deposit operations financed mainly by customer deposits, continues to represent a challenge and will continue to exert 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 securities falls each time a fixed-income bond is repaid. This interest rate environment will probably put further significant pressure on our earnings position in 2019.

As regards the further modernisation of our IT architecture, we have started to systematically work off the backlog of demand and primarily – alongside the regulatory requirements – improve 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 increasingly use 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. It will also lead to a permanent increase in regulatory costs. The Bank's fixed costs will increase, irrespective of its earnings opportunities, and exert an influence on the minimum cost-efficient operating size of the Bank. Overall, we still regard the regulatory environment as challenging, but see ourselves as well equipped for the resulting consequences. 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.

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 of our ability to successfully implement the "Germany 2020" strategy because of our consistent client focus and be able to operate as a reliable strategic partner for our clients thanks to our good capital resources.

Counterparty credit risk

(a) Definition

Counterparty credit risk is understood as the risk of a financial loss resulting from a client or business partners being unable to meet its contractually agreed obligations partially or in full. Counterparty default risk arises especially in the on-balance sheet lending business, in the securities business and in the derivatives business, as well as in off-balance sheet contingent liabilities (financial guarantees) and loan commitments. All segments that enter into counterparty default risks are therefore affected, especially the Commercial Banking and Global Banking & Markets segments. 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 in connection with the granting of loans. Issuer risk is the risk of the issuer of a security defaulting. This is above all where an issuer cannot service its bond (interest of principal) as a result of liquidity difficulties or due to insolvency. 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. Counterparty risk may be subdivided into replacement risk and settlement risk. The replacement risk refers to the risk that the service agreed upon with the counterparty will not be provided at a later point in time and can therefore only be procured at potentially less favourable market conditions. Settlement risks express the threat of losses that can arise if we make an advance outlay as part of trading activities or problems occur within the scope of processing transactions (settlement risk). We pay significant attention to this risk despite the very short settlement periods. 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 counterclaims.

For accounting purposes, we define a default in accordance with the regulatory definition of default under the Capital Requirements Regulation (CRR), in order to guarantee as uniform and consistent an application as possible within the Group. It is uniformly applied for all financial instruments and client groups. Accordingly, an event of default and hence an impairment within the meaning of the accounting standards occurs, where it is unlikely that the borrower can meet its obligations in full, without having to resort to measures such as the realisation of collateral, or if one of the borrower's substantial receivables is more than 90 days past due.

(b) Credit risk strategy

Counterparty risk represents a substantial source of risk for our group. The Management therefore pays particular attention to the management and limitation of this risk.

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 risk as widely as possible between sectors, borrowers and counterparties, and avoid the concentration of counterparty risk. At the same time, we attach importance to the borrower having sufficient scope for financing.

There can be a concentration in the area of counterparty default 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 a risk horizon of one year into consideration.

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own clients in their business dealings throughout the world. We are then in the position here to offer comprehensive solutions with the help of the local HSBC units. 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) 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. Alongside bilateral credit lines these include, for example, syndications 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 create net loan impairment and other credit risk provisions for existing default risks for debt instruments whose subsequent measurement is amortised cost or fair value without effect on the income statement (for example, loans and receivables, bonds), and for loan commitments extended and financial guarantees. After the IFRS 9 accounting principles that are applicable for the first time since 1 January 2018, a model for measuring net loan impairment and other credit risk provisions in the amount of the expected credit loss is used.

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

(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 classified 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) Quantification of counterparty default risk

The measurement and mitigation of counterparty default risk for the purposes of risk management require the use of complex procedures and model valuations. The assessment of the risk associated with the loan exposure changes constantly depending on market developments and expectations, but also over time. The credit risk measurement is always based on expectations vis-a-vis expected defaults and hence associated losses, as well as the correlation of any defaults in relation to other borrowers.

The counterparty credit risk is basically 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.

To measure expected credit losses, the exposure at default, the probability of default and the loss ratio on individual transactions are taken into consideration, and appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment are projected into the future and offset against one another. The probability that the loan exposure does not meanwhile default or is repaid is also taken into consideration. The expected credit loss is derived from the discounting by the original effective rate of interest or an approximation thereof at the time of calculation.

The expected losses are determined individually for defaulted loan exposures by using the present value method in relation to the still expected cash flows and taking into account probability-weighted scenarios.

(f) Risk classification procedure

The Bank uses a 23-stage rating system to classify the credit quality of its clients. We use five different rating systems which cover the customer groups international corporations, German MMEs, receivable finance (debtors), banks and financial service providers. These rating systems are supplemented by risk classification procedures for high net worth private clients and regional governments. The assessment is always made at individual borrower level and not portfolio-based.

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

The 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 valuation supplements the statistical analysis of the financial data and the analysis of the sector and country risk.

The rating system for the receivable finance business was developed independently by the Bank. It is based on a statistical component that includes the key data, the debtors' payment record and external information in the client assessment. The rating system is fully automated and does not include an additional qualitative component.

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

A borrower rating is created for regional governments based on the credit-worthiness if the respective central government and the legal situation, such as the federal financial equalisation system in Germany.

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 and quality categories shown. To classify the internal ratings, we use the credit quality categories and the default risks of the twelve-month default probabilities assigned to the CRR are shown in the following table.

Credit quality categories	Default risk based on the internal rating scale	Ten-stage internal rating scale (customer risk rating)	Twelve-month probability of default – range in %
very good credit quality	minimal default risk	1	0.000 – 0.053
	low default risk	2	0.054 – 0.169
good credit quality	satisfactory default risk	3	0.170 – 0.740
moderate credit quality	appropriate default risk	4	0.741 – 1.927
	moderate default risk	5	1.928 – 4.914
low credit quality	increased default risk	6	4.915 – 8.860
	high default risk	7	8.861 – 15.000
	Intensive servicing	8	15.001 – 99.999
Loan default	Loan default	9	100
		10	100

A corresponding allocation of external ratings (here from S&P) to the credit quality categories used for bonds and other fixed-income securities is outlined in the following overview. However, the internal rating is decisive for the internal management, even if external ratios are available.

Credit quality categories	External rating (Standard & Poor's)		
	Governments and public-sector authorities	Banks	Other borrowers
very good credit quality	AAA to BBB	AAA to A–	AAA to A–
good credit quality	BBB– to BB	BBB+ to BBB–	BBB+ to BBB–
moderate credit quality	BB– to B	BB+ to B	BB+ to B
low credit quality	B– to C	B– to C	B– to C
Loan default	D	D	D

Definition of the credit quality categories:

- CRR 1 and CRR 2 exposures show a high ability to pay, with a negligible or low probability of default (very good credit quality).
- 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 (good credit quality).
- 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 (moderate credit quality).
- CRR 6 to CRR 8 exposures require ongoing monitoring adjusted to the client's situation. There is an increased probability of default (low credit quality).
- 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 the Bank having to access the collateral provided (credit default).

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, German MMEs, receivables finance (debtors), 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 client and for the receivable finance business (debtors) was revised within the scope of the amended business strategy. It was recognised for use in the financial year within the scope of the regulatory capital requirements and used since then. The loss given default (LGD) and the exposure at default (EAD) are based on standard regulatory parameters. For better risk differentiation, the Bank uses internal models to estimate the loss given default (LGD) for the purpose of managing its economic risk-bearing capacity. The internal LGD model for corporate clients has been used since December 2012. Clients from the Global Private Banking segment as well as governments and governmental institutions are treated under the standard approach.

The Global Risk Analytics division is responsible for the maintenance, monitoring and further development of the systems for measuring credit risk, especially the in-house MME rating system.

(g) Maximum default risk

The maximum default risk from financial instrument including loan commitments and financial guarantees granted as at 31 December 2018 are shown in the following table. The maximum default risk at a specific reporting date equates to the book value of the on-balance sheet financial assets, including the positive market values from derivative financial instruments reported at this reporting date. Exchange-traded derivatives are generally not exposed to any default risk due to the margin system, but are included in the following table of this section for the sake of completeness. Collateral received and other credit improvements are not taken into account to mitigate risk in this presentation.

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 and other credit risk provisions.

	31.12.2018		31.12.2017	
	in €m	in %	in €m	in %
Loans and advances	**12,241.2**	**36.3**	**10,251.4**	**31.1**
to banks	1,460.7	4.3	858.3	2.6
to customers	10,780.5	32.0	9,393.1	28.5
Trading assets	**2,876.7**	**8.5**	**3,702.1**	**11.3**
Bonds and other fixed-income securities	1,206.5	3.6	1,241.5	3.8
Equities and other non-fixed income securities	706.6	2.0	759.1	2.3
Tradable receivables	963.6	2.9	1,701.5	5.2
Positive market values of derivative financial instruments*	**1,265.6**	**3.7**	**1,420.8**	**4.3**
Exchange-traded derivatives	248.7	0.7	163.7	0.5
OTC derivatives	1,016.8	3.0	1,254.3	3.8
Derivatives in hedging relationships	0.0	0.0	2.7	0.0
Derivatives held in the banking book	0.1	0.0	0.1	0.0
Financial assets	**3,532.1**	**10.5**	**4,874.2**	**14.7**
Bonds and other fixed-income securities	3,418.1	10.1	4,670.6	14.1
Investment certificates	0.0	0.0	33.5	0.1
Promissory note loans	90.3	0.3	135.6	0.4
Investments	23.7	0.1	34.5	0.1
	192.2	**0.6**	**n/a**	**n/a**
Bonds and other fixed-income securities	88.0	0.3	n/a	n/a
Hybrid financial instruments	60.0	0.2	n/a	n/a
Investment certificates	21.3	0.1	n/a	n/a
Equities and other non-fixed income securities	8.2	0.0	n/a	n/a
Investments	14.7	0.0	n/a	n/a
Contingent liabilities	**2,916.3**	**8.8**	**2,558.5**	**7.7**
Loan commitments	**10,653.8**	**31.6**	**10,208.1**	**30.9**
Total	**33,677.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives were accounted for as supplementary as at the reporting date and in the reference period.
** Reported under financial assets in the previous year

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

Netting agreements and agreements over guarantees for market values in the form of specific collateral are concluded specifically in the derivatives business. With netting agreements, offsetting contracts with the same customer or counterparty can be netted against each other under certain conditions. These agreements substantially reduce the maximum default risk represented above. We refer to section (m) Collateral and other credit improvements for information about the collateral received for loans and receivables, contingent liabilities and loan commitments.

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

	31.12.2018		31.12.2017	
	in €m	in %	in €m	in %
Risk concentration by sector*				
Companies and self-employed professionals	22,069.4	65.5	20,443.8	62.0
Banks and financial institutions	7,662.1	22.8	7,669.1	23.2
Public sector	3,617.6	10.7	4,602.0	13.9
Employed private individuals	328.8	1.0	300.2	0.9
Total	**33,677.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives were accounted for as supplementary as at the reporting date and in the reference period.

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 €1,855.3million (2017: €1,469.1million) of the default risk vis-à-vis banking organisations.

	31.12.2018		31.12.2017	
	in €m	in %	in €m	in %
Risk concentration by region*				
Domestic	22,282.6	66.2	22,130.1	67.1
Other EU (plus Norway and Switzerland)	8,684.6	25.8	8,225.3	24.9
North America	1,222.6	3.6	1,220.0	3.7
Asia	768.1	2.3	787.5	2.4
Africa	438.1	1.3	365.6	1.1
South America	99.7	0.3	144.5	0.4
Rest of Europe	146.9	0.4	80.4	0.2
Oceania	35.3	0.1	61.7	0.2
Total	**33,677.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives were accounted for as supplementary as at the reporting date and in the reference period.

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

(h) Determining the risk provisioning requirements
Up to 31 December 2018, the recognition of impairments was based on a model whereby only actual losses incurred led to the recognition on the balance sheet of a net loan impairment and other credit risk provisions (incurred loss model). This has changed fundamentally with the introduction of IFRS 9 for the recognition of financial instruments. The risk provisioning requirements are calculated and recognised on the basis of expected credit losses since 1 January 2018.

Assets (debt) that are carried at amortised cost or reported at fair value directly in equity showing the changes in value are affected by the regulations on the recognition of impairment under IFRS 9. Loan commitments and financial guarantees granted are also affected. The reporting of impairments is based on a three-level model. Under IFRS 9, net loan impairment and other credit risk provisions in the amount of the 12-month expected credit losses is recognised for financial assets in the event that the credit risk on the balance sheet date has not increased significantly since initial recognition and has not met the default definition at initial recognition (level 1). Net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial recognition (level 2) and for credit-impaired assets on the balance sheet date (level 3). Purchased or originated credit impaired (POCI) financial assets are recognised at initial application deducting the lifetime expected credit losses.

We use quantitative as well as qualitative criteria to assess whether a financial asset is at an increased risk of default risk compared with upon recognition. To determine the transition from level 1 to level 2, besides qualitative criteria such as interest and principal payments more than 30 days overdue and the inclusion in the list of exposures subject to closer monitoring, we use the qualitative criterion of the relative change in the expected probabilities of default since initial application of the respective financial instrument as a primary indicator.

From a quantitative perspective, we calculate changing credit risks of individual financial instruments on the basis of cumulative probabilities of default. To determine an increased credit risk relative to upon recognition, we compare the average, one-year probability of default upon recognition with that at the reporting date (residual average term forward point-in-time PD). Information about part events, prevailing conditions and forecasts about the future economic environment in the form of different economic scenarios with weightings dependent on their expected probability of occurrence are included in the calculations.

There is a sharp increase in the credit risk, leading to financial instrument previously allocated to level 1 being allocated to level 2, if predefined thresholds that are based on expert estimates and validated at least once a year are reached or exceeded. In the case of customer risk ratings (CRRs) of 0.1 to 1.2 upon recognition, the probability is increased by 15 basis points and by 30 basis points for CRRs of 2.1 to 3.3. For CRRs over 3.3, that are not considered to have defaulted, the credit risk is assumed to have increased significantly, if the probability of default has doubled since acquisition.

For financial instruments with an acquisition date before the date of initial application of IFRS 9, additional criteria depending on the CRRs upon recognition are used in order to define a significant increase in the credit risk. In the case of a CRR of 0.2 upon recognition, a significant increase in the credit risks is assumed if the rating deteriorates by five rating grades.

Depending on the initial rating, the following minimum deterioration of the rating grades lead to the assumption of a significant increase in the credit risk:

– initial rating of 0.1	5 rating grades
– initial rating of between 1.1 and 4.2	4 rating grades
– initial rating of between 4.3 and 5.1	3 rating grades
– initial rating of between 5.2 and 7.1	2 rating grades
– initial rating of between 7.2 and 8.2	1 rating grade
– initial rating of 8.3	0 rating grades

In qualitative terms, all loan exposures that are on the watch-worry-monitor list and are therefore allocated to the 'watch' or 'worry' categories are not considered to belong any longer to level 1, so that they are transferred to level 2 or level 3 if necessary. This concerns all exposures that have to be transferred from normal loan handling to special handling, because indicators determined for the early identification of risk, such as negative sector developments or negative reporting about a borrower, point to increased credit risk in advance. We refer to the section (I) Adjustment of contractual cash flows of financial assets (modifications) for any modifications.

In addition, interest or principal payments overdue by more than 30 days are considered to be an additional security mechanism (backstop) to determine a significant increase in the credit risk. We generally do not avail of the refutation option stated in the accounting standards. Similarly, we do not use the exemptions for financial instruments with low credit risk (ow credit risk exemption).

A return from level 3 to a better level is generally possible. However, this requires that the default definition is no longer met consistently for a period of up to twelve consecutive months.

The assessment of counterparty default risks is based on appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment, in so far as they are significant for assessing expected credit defaults. Three forward-looking scenarios are generally taken into consideration. The average expected performance of the economic environment represents the central scenario. In addition, two alternative scenarios are generally taken into consideration: one scenario that expects the economic environment to develop more favourably than expected (upside scenario) and another where the economic environment is expected to develop less favourably (downside scenario). Should circumstances require it, additional scenarios are developed and used to assess the counterparty default risks. However, we generally assume that the potential, non-linear development of the economic environment can be mapped appropriately with these three scenarios.

Overall, large parts of the methodical, process and systems-based implementation of the new provisions for the reporting of impairments in the amount of the expected credit losses is supported by the expertise in the HSBC Group. The underlying scenarios for measuring risk are developed from different forecasts of independent sources (such as central banks, Oxford Economics) by an expert team in HSBC Group involving external, independent advisors. Their relative importance and weighting for the subsequent actions are also determined. The scenarios are generally based on a five-year forecast period starting from the balance sheet date (point in time approach). The central scenario is developed in two steps. In the first steps, central economic indicators, specifically GDP growth, the unemployment rate and real estate price growth were determined for HSBC's key markets. On this basis, a large number of additional indicators are derived in a second step using established economic and industry-specific models. Finally, the expected development necessary for the risk measurement is modelled, taking into account country-specific features. The upside and downside scenario is then developed on this basis. The opportunities and risks of a possible positive or negative development tend to be overstated here and possible non-linear developments taken into consideration on the basis of model calculations, empirical values and risk assessments.

The central scenario is updated every quarter and the other two scenarios generally on an annual basis, provided the macroeconomic or political developments do not require an interim update.

The forecasts for future economic conditions impact on the calculation of PDs and LGDs. When calculating the PD, the forecast of the economic development is reflected in the default probabilities of specific industries in the respective countries. When calculating the LGD, this impacts in particular on the collateral value and its recovery options.

(i) Credit quality of the financial instruments

The following overviews show the credit quality of the financial instruments that are subject to the IFRS 9 impairment provisions, broken down by the three levels and the related net loan impairment and other credit risk provisions based on the reporting date of 31 December 2018 and the initial application of IFRS 9, as at 1 January 2018. In addition, the credit quality of the debt instruments at fair value without effect on the income statement is shown on the respective reporting dates.

We did not hold any purchased or originated credit impaired (POCI) financial assets during the period under report.

Financial instruments measured at amortised cost:

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

01.01.2018 in €m	Gross book values / notional amount						Net loan impairment and other credit risk provisions	Net book values / notional amount
Balance sheet item / level	**very good credit quality**	**good credit quality**	**Moderate credit quality**	**low credit quality**	**Loan default**	**Total**		
Loans and advances to banks	622.8	172.1	60.4	3.0	0.0	858.3	0.1	858.2
Level 1	621.3	170.9	57.2	0.0	0.0	849.4	0.1	849.3
Level 2	1.5	1.2	3.2	3.0	0.0	8.9	0.0	8.9
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	2,554.8	3,596.6	3,032.3	99.2	106.6	9,389.5	36.4	9,353.1
Level 1	2,508.9	3,466.3	2,595.4	32.8	0.0	8,603.4	1.2	8,602.2
Level 2	45.9	130.3	436.9	66.4	0.0	679.5	3.4	676.1
Level 3	0.0	0.0	0.0	0.0	106.6	106.6	31.8	74.8
Contingent liabilities	860.1	860.1	795.2	25.9	17.2	2,558.5	8.4	2,550.1
Level 1	859.0	846.9	761.9	17.3	0.0	2,485.1	0.1	2,485.0
Level 2	1.1	13.2	33.3	8.6	0.0	56.2	0.1	56.1
Level 3	0.0	0.0	0.0	0.0	17.2	17.2	8.2	9.0
Loan commitments	4,507.7	4,088.3	1,502.1	95.0	15.0	10,208.1	4.2	10,203.9
Level 1	4,503.7	4,022.5	1,188.5	37.5	0.0	9,752.2	0.5	9,751.7
Level 2	4.0	65.8	313.6	57.5	0.0	440.9	1.5	439.4
Level 3	0.0	0.0	0.0	0.0	15.0	15.0	2.2	12.8
Total	**8,545.4**	**8,717.1**	**5,390.0**	**223.1**	**138.8**	**23,014.4**	**49.1**	**22,965.3**

Debt instruments at fair value without effect on income:

31.12.2018 in €m	Fair value						Net loan impairment and other credit risk provisions
Balance sheet item / level	**very good credit quality**	**good credit quality**	**moderate credit quality**	**low credit quality**	**Loan default**	**Total**	
Financial assets	2,949.0	448.3	111.1	0.0	0.0	3,508.4	0.9
Level 1	2,941.0	443.2	96.5	0.0	0.0	3,480.7	0.4
Level 2	8.0	5.1	14.6	0.0	0.0	27.7	0.5
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

31.12.2018

in €m	Fair value						Net loan impairment and other credit risk provisions
Balance sheet item / level	**very good credit quality**	**good credit quality**	**moderate credit quality**	**low credit quality**	**Loan default**	**Total**	
Financial assets	4,138.5	292.6	118.6	0.0	39.7	4,589.4	10.5
Level 1	4,128.0	277.9	118.6	0.0	0.0	4,524.5	0.2
Level 2	10.5	14.7	0.0	0.0	0.0	25.2	0.2
Level 3	0.0	0.0	0.0	0.0	39.7	39.7	10.1

Debt instruments measured at fair value through profit or loss:

31.12.2018

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

01.01.2018

in €m	Fair value					
Balance sheet item	**very good credit quality**	**good credit quality**	**moderate credit quality**	**low credit quality**	**Loan default**	**Total**
Trading assets	1,856.5	551.1	535.4	0.0	0.0	2,943.0
Other financial assets mandatorily measured at fair value through profit or loss	3.8	81.7	53.3	0.0	0.0	138.8

The credit quality of the financial instruments as at 31 December 2017 is shown in the following tables. As these tables are based on the provisions pursuant to IAS 39, no breakdown by level is possible. External ratings (usually Standard & Poor's) were used in principle to assess the credit quality of the bonds and other fixed-income securities, provided these ratings are regularly available.

31.12.2017

in €m	Gross book values / notional amount						Net loan impairment and other credit risk provisions		Net book values / notional amount
Balance sheet item	very good credit quality	good credit quality	moderate credit quality	low credit quality	Loan default	Total	Collectively assessed impairments	Individually assessed impairments	
Loans and advances to banks	622.8	172.1	60.4	3.0	0.0	858.3	0.3	0.0	858.0
Loans and advances to customers	2,554.8	3,596.6	3.032.3	99.2	110.2	9,393.1	11.7	32.5	9,348.9
Contingent liabilities	860.1	860.1	795.2	25.9	17.2	2,558.5	0.8	8.2	2,549.5
Loan commitments	4,507.7	4,088.3	1,502.1	95.0	15.0	10,208.1	7.6	2.2	10,198.3
Total	**8,545.4**	**8,717.1**	**5,390.0**	**223.1**	**142.4**	**23,018.0**	**20.4**	**42.9**	**22,954.7**

31.12.2017

in €m	Fair Value					
Balance sheet item	very good credit quality	good credit quality	moderate credit quality	low credit quality	Loan default	Total
Financial assets	4,060.1	492.6	253.5	0.0	0.0	4,806.2
Trading assets	1,856.6	551.1	535.3	0.0	0.0	2,943.0

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

Impact of the introduction of IFRS 9

The initial application of the impairment provisions under IFRS led to a total reduction of €13.1million in the net loan impairment and other credit risk provisions at the time of conversion as at 31 December 2017 / 1 January 2018 compared with the provisions pursuant to IAS 39.

The decline in net loan impairment and other credit risk provisions in the transition from IAS 39 to IFRS 9 is largely attributable to the conceptual conversion of the calculation method from the so-called "through the cycle" approach to the so-called "point in time" approach against the background of the positive economic environment in Germany on the reporting date. When calculating the collectively assessed impairments under IAS 39, we used PDs and LGDs originating from regulatory requirements, among other things. Accordingly, the previous calculation method was based on an approach in which the current economic influences tend to be reduced and the focus was on the long-term view over an economic cycle instead. Under IFRS 9, the emphasis is on the current, cyclical consideration, which is why the calculation method presents a conceptual reporting date-related approach, taking into account predicted economic parameters (point in time approach). In light of the excellent forecasts for the German economy at the time of conversion, the expected credit losses average significantly below the previous underlying loan defaults. At the initial application of IFRS 9, this led to significantly lower net loan impairment and other credit risk provisions for levels 1 and 2 financial instruments under IFRS 9 compared with IAS 39. There were no material changes in net loan impairment and other credit risk provisions for level 3 financial instruments.

Development of net loan impairment and other credit risk provisions in the reporting year

Net loan impairment and other credit risk provisions compared with the gross book values and notional amounts of the loan exposure as at 31 December 2017 and 1 January 2018 are shown in the following table taking into account the allocation to the levels. Please see the Note 'Net Loan Impairment and Other Credit Risk Provisions' for information on the evolution of the net loan impairment and other credit risk provisions.

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

01.01.2018	Gross book values / notional amount in €m				Net loan impairment and other credit risk provisions in €m				Risk provisioning cover in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	849.4	8.9	0.0	858.3	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Loans and advances to customers	8,603.4	679.5	106.6	9,389.5	1.2	3.4	31.8	36.4	0.0	0.5	29.8	0.4
Contingent liabilities	2,485.1	56.2	17.2	2,558.5	0.1	0.1	8.2	8.4	0.0	0.2	47.7	0.3
Loan commitments	9,752.2	440.9	15.0	10,208.1	0.5	1.5	2.2	4.2	0.0	0.3	14.7	0.0
Total	**21,690.1**	**1,185.5**	**138.8**	**23,014.4**	**1.9**	**5.0**	**42.2**	**49.1**	**0.0**	**0.4**	**30.4**	**0.2**

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

01.01.2018	Fair value (in €m)				Net loan impairment and other credit risk provisions in €m				Risk provisioning cover in %			
	Stufe 1	Stufe 2	Stufe 3	Summe	Stufe 1	Stufe 2	Stufe 3	Summe	Stufe 1	Stufe 2	Stufe 3	Summe
Financial assets	4,524.5	25.2	39.7	4,589.4	0.2	0.2	10.1	10.5	0.0	0.8	25.4	0.2

Calculating expected credit losses is naturally a sub-section of accounting policies, which is subject to significant estimation uncertainties and discretionary decisions, so that considerable additional risk provisioning requirements can be expected if the very good forecasts currently for the German economy deteriorate significantly.

(k) Loans and advances which are overdue, but not impaired

The Bank's loans and advances, which have not been impaired although overdue, amounted to €238.7million on the balance sheet date (2017: €171.7million) and are exclusively to customers. €154.3million (2017: €137.4million) is the result of the purchase of credit-insured accounts receivable in the factoring business. The fair value of the collateral stood at €140.4million, of which the factoring business accounted for €138.9million (2017: €123.7million). 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, €210.5million is less than 30 days overdue and €28.2million between 30 days and 90 days overdue.

(l) Adjustment to contractual cash flows of financial assets (modifications)

In exceptional cases, the contractually agreed cash flows of financial assets are adjusted during the contract term. Possible reasons for such contract modifications include in particular renegotiations against the background of a change in the meantime to the economic parameters or financial difficulties experienced by the borrower. In the case that the borrower experiences financial difficulties, existing credit agreements are structured in such a way that the Bank grants concessions to a client that it would not have been prepared to give under other circumstances, because of the client's financial problems, in order to bring about maximum loan repayment overall under the given circumstances. Measures taken in this respect include, for example, a deferral of payments due in order to make it easier to meet the contractual obligations for a limited period of time, whereby amounts unpaid during the deferral period have to be settled again at a later point in time. Other contractual modifications can include the extension of payment targets or changes to interest rates or margins. Such changes to contractual cash flows are only made where, if the management assumes that that in applying established loan restructuring processes and practices, borrower will very likely be able to meet its obligations under the modified contractual terms.

If certain payments default fully or partially as a result of contractual modifications, the corresponding claims are written off and, if necessary, a gain or loss is recognised from the disposal of financial assets measured at amortised cost. The same shall apply to the case where the contractual modification is so significant that it is necessary to write off the original financial asset and recognise a new financial asset. To assess the materiality of such a contract modification, we use qualitative and quantitative criteria conforming to the derecognition requirements of IFRS 9. If the contract modification does not lead to the write-off of the financial asset, any material effect on earnings from the modification, calculated as the difference between the book value before contract modification and the present value of the cash flows of the adjusted contract, is recognised directly in the income statement.

The adjustment of contractually agreed cash flows from loan agreements, whose borrowers are in financial difficulties lead directly and in every case to a downgrade to CRR 9 resulting in an allocation to level 3 with the corresponding impact on the measurement of the expected credit losses and net loan impairment and other credit risk provisions. Such problem loans are managed from then on by a specialist organisational unit for the restructuring and recovery of loans. The aforementioned rules for the reporting of impairments are also applied to these loan exposures. A prerequisite for a return from level 3 to a better level is that the borrower in question meets its payment obligations for a period of at least twelve consecutive months under the modified contractual terms. During the period under review, no contract modifications were made to loan agreements where the borrowers experienced financial difficulties in the past and were then meanwhile transferred to level 1 due to the continuous compliance with the modified contractual terms (IFRS 7.35J (b)).

As at 31 December 2018, loans and advances to banks included financial assets of €139.1million (2017: €142.8milion) whose contractual terms were modified.

Overall, the contractual terms of loans and advances to customers with a book value before contract modification of €48.9million were modified during the period under review. The resulting net loss of €0.9million in 2018 is recognised as a share of the risk provisioning in the lending and securities business.

(m) Collateral and other credit improvements

The collateralisation of loan exposures represents an important measure for securing the (extensive) repayment of loan exposures. However, the emphasis in the lending process or the decision as to whether to grant a loan is not placed primarily on collateral or other credit improvements, such as guarantees. Rather, it is standard practice for the lending decisions to be made on the basis of the ability of the respective borrower to meet the contractual obligations, especially to make interest and redemption payments. Depending on the clients' credit standing and type of product, credit facilities may also be granted without the provision of collateral. In the traditional lending business, the provision of collateral is agreed in principle where necessary, especially with long-term financing, borrowers with weaker credit ratings or pure loans against securities. For the case that a borrower defaults, the Bank also avails if necessary of the option to realise the collateral and thus reduce the loan exposure. There were no material changes to our collateral policy and practices in the year under report.

The following tables show the correlation between the maximum default risk in the credit portfolio and the financial collateral received depending on the allocation to the levels. Any costs incurred in realising the collateral are not taken into account.

in €m	31.12.2018				
	Loans and advances to banks	**Loans and advances to customers**	**Contingent liabilities**	**Loan commitments**	**Total**
Level 1	**1,459.3**	**10,008.6**	**2,657.3**	**10,090.1**	**24,215.3**
of which uncollateralised	1,422.2	9,002.7	2,578.0	9,134.2	22,137.1
of which fully collateralised	37.1	419.3	42.7	38.9	538.0
of which partly collateralised	0.0	586.6	36.6	917.0	1.540.2
Amount of partial collateralisation (level 1)	0.0	453.8	26.8	773.5	1,254.1
Level 2	**1.4**	**570.2**	**248.3**	**536.3**	**1,356.2**
of which uncollateralised	0.5	375.0	91.6	430.0	897.1
of which fully collateralised	0.0	75.9	0.2	0.0	76.1
of which partly collateralised	0.9	119.3	156.5	106.3	383.0
Amount of partial collateralisation (level 2)	0.9	92.0	127.5	66.5	286.9
Level 3	**0.0**	**201.7**	**10.7**	**27.4**	**239.8**
of which uncollateralised	0.0	194.1	10.0	27.4	231.5
of which fully collateralised	0.0	0.0	0.4	0.0	0.4
of which partly collateralised	0.0	7.6	0.3	0.0	7.9
Amount of partial collateralisation (level 3)	0.0	7.0	0.1	0.0	7.1

in €m	31.12.2017				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	**858.3**	**9,393.1**	**2,558.5**	**10,208.1**	**23,018.0**
of which uncollateralised	855.3	8,354.3	2,532.5	9,392.5	21,134.6
of which fully collateralised	3.0	719.6	4.9	26.9	754.4
of which partly collateralised	0.0	319.2	21.1	788.7	1.129.0
Amount of partial collateralisation	0.0	163.1	7.9	633.7	804.7

The Bank 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 the orderly furnishing of the collateral is also monitored.

Where financial guarantees are assumed, the accounts and securities accounts pledged are recorded in the IT system and valued daily. The key data of the guarantees are linked by the system 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 represent a substantial basis for the receivable finance business and are taken into consideration to the extent of the claims insured in each case.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 3 years 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.

As in the previous year, there were no material changes to the quality or value of the collateral received and other credit improvements.

As at 31 December 2018, no net loan impairment and other credit risk provisions were created for level 3 loans and receivable with a book value of €111.0million. In light of the soundness and realisability of the collateral received for these loan commitments, the outstanding loans are expected to be repaid in full.

Collateral and other credit improvements amounting to €2.9million were realised and drawn on, respectively, in the 2018 financial year (2017: none). These comprise mainly collateral pledged in conjunction with a real estate loan.

(n) Credit portfolio management
The WCMR 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 RiskFrontier and the simplified portfolio model is derived based on the quarterly calculation and applied to the results of the simplified model.

(o) 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 WCRM team involving 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 problems. Losses resulting from fraud, unauthorised activities, errors, omissions, inefficiencies or internal events 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. Compliance risks also include fraud. Potential loss and damage is not only that of a financial nature, but also the risk to the Bank's reputation, the risk of legal disputes and the risk of supervisory measures. Reputation risk is regarded as a potential loss as a negative perception of the Bank on the part of any third parties may negatively impact the Bank's ability to safeguard its existence, establish new business relationships and its access to sources of financing. As regards compliance risk the Bank differentiates between risk relating to financial crime (financial crime risk) and risk addressing other breaches of law and regulations (regulatory compliance).

Legal risk in the risk of financial loss, legal or regulatory consequences or reputational damage resulting from contractual risks, risks from dispute resolution and risks from non-contractually fixed rights.

The Bank defined tax risk any incorrectly determined, control or operation of tax risk positions on the basis of a defect in the transfer of tax relevant data, incorrect retention of (withholding) tax or inadequate fulfilment of tax obligations by the Bank and its subsidiaries, or their clients, that could lead to financial losses and / or lasting damage to the public perception of the Bank's reputation. Tax risk also included the valuation of uncertain tax positions, the operational risks in processing tax data, the risks arising from emerging changes in the tax frameworks, the strategic risks resulting from tax-related business policies and the reputational risks arising from the incorrect treatment of taxes.

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

Information and cyber security risk includes the breach of information or cyber security as a result of incorrect or fraudulent use of a computer or a computer network. The risk includes an actual or potential negative impact on the Bank's information system and / or on the information contained in the system. In addition to information kept in digital form, this also includes information in physical form, e.g. printed reports, hand-written notes as well as physical storage media.

The Operational Risk Working Group is responsible for the control of operational risks across the board within the Bank and meets every two months chaired by the Chief Risk Officer. It 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 Working Group stipulates the guidelines and standards for monitoring the internal control environment and is responsible for the further development of the methods, systems and processes of operational risk management. Its key tasks include also include monitoring the risk profile throughout the Bank and introducing suitable measures if the risk profile moves outside the set framework.

The Management Board attaches major importance to practising a risk culture whereby risk is not only identified at an early stage, but also reported directly and openly. The awareness of operational risk has increased significantly among all employees in recent years. Information concerning operational risk is included in the daily decision-making processes.

Noting the minutes and holding regular discussions about important circumstances in the Bank's risk management meeting ensures that all members of the Management Board are informed continuously about current developments and of the Bank's risk profile.

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 process, the core risks including the key controls are identified and documented for each division or process which is significant from a risk perspective, and documented in a central IT system. 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. During the assessment, plausible scenarios which may arise within the next twelve months are observed and examined with regard to their probability of occurrence and the extent of the loss. Direct financial costs and indirect consequences for customer service, reputation and supervisory consequences are taken into consideration when assessing the extent of the loss. By applying a standard risk prioritisation matrix, the risks are prioritised on this basis. If it turns out that the residual risk lies outside the Bank's defined appetite for risk in individual cases, the person responsible for risk must transfer or formally accept the risk if the risk cannot be brought back within the limits of the appetite for risk within twelve months by taking suitable measures. Any acceptance must be approved by the Bank's Operational Risks Committee and the Risk Management Meeting.

Another important instrument in managing operational risk is conducting the top-down process, the objective of which is the identification and valuation of the largest operational risks and determining corresponding 1 in 100 scenarios. Top risks are the operational risks with the greatest impact on the business divisions and subsidiaries, which are calculated within the scope of a top-down approach.

The Bank 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 Risks unit is also involved in the conception and approval of new products and services, in order to ensure that operational risks are identified early on and minimised via suitable measures.

Information and cyber security risks are managed by the provision of extensive guidelines on the safe handling of data. Their contents are communicated annually to the employees through mandatory training. In addition, employee awareness is supported during the year through participation in meetings, communications in the Intranet and through e-mails.

We have taken precautions on information security management for the Bank and its subsidiaries. The information security management is oriented in principle on the recommendation of current industry standards (ISO2700x, NIST etc.) and comprises all requirements about the handling of information. These include information security organisation, the information security guidelines and the management of information security risks.

The information security organisation is a unit that is specifically responsible for information security. It is created from existing organisational structures and roles and duties that have yet to be determined. The information security organisation is not an independent organisational unit. It generally comprises members from different organisational units. 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.

Monitoring the information and cyber security risk is carried out by the Information Security Risk committee, which convenes every quarter in a meeting chaired by the Chief Risk Officer.

In accordance with the organisation in the HSBC Group, the Bank has divided the management and control of compliance risk between the Financial Crime Risk (FCR) and Regulatory Compliance (RC) teams. The management and control of compliance risk is carried out jointly by the two compliance teams. The responsibilities are as follows:

Financial Crime Risk:

- Anti-Money-Laundering – AML and Counter Terrorist Financing – CTF)
- Compliance with sanctions
- Anti-Bribery and Corruption – AB & C
- Central office for combating any other criminal offences, including fraud

Regulatory Compliance (RC):

Exercising the MaRisk compliance function pursuant to MaRisk 4.4.2 and the compliance function in accordance with the German Securities Trading Act, management of the business divisions in the implementation of and adherence to compliance-relevant regulatory provisions (such as conflicts of interest, complaints, market abuse, best execution), the topics of data protection, banking secrecy, outsourcing compliance and the global conduct risk programme of the HSBC Group.

Compliance risks are managed in particular through preventative measures for creating an awareness of risk (for example through training measures), a risk-minimising structuring of business processes, clear escalation and sanctioning mechanisms, internal guidelines and provisions, but also through controls implemented on the basis of various lists managed by Regulatory Compliance.

The prevention of reputational damage within the scope of compliance risks aims to prevent misconduct by the Bank and its employees, among other things. For this purpose, HSBC Group and the Bank have established a risk culture as part of the corporate culture. Part of the strategy is the established conduct programme, whereby HSBC Group and its employees commit to ensure fair results for its clients and to maintain the order and transparency of the financial markets.

The management of legal risks differentiates between four types of legal risks:

- Contractual risks
- Risks arising from the implementation of legal requirements and those of the regulatory authorities and jurisprudence,
- Risks arising from the management of legal disputes or official investigations and
- Non-contractual risks, such as those arising from breaches of copyright.

The first two categories of legal risks are particularly important for the Bank.

Tax risks are managed through preventative measures to create an awareness of risk, a risk-minimising structuring of business processes, clear escalation and sanctioning mechanisms and the establishment of a special risk culture by the tax department A so-called evolving tax-compliance management programme is currently being developed to ensure consistent risk management throughout the Bank.

The Bank's strategic objective is for the models used for quantifying risk to have the fit for purpose status. The model risks are managed by the interim validation and monitoring report. The implemented traffic-light system – depending on the model and the respective statistical tests – allows the Bank to react quickly to aberrant developments.

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 also used to calculate the economic and regulatory capital requirements. However, these figures are based in principle 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 (hypothetical 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 (actual P&L) is also used in back testing.

No negative back-testing anomalies were incurred on trading book level in the Bank in 2018.

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

in €m		2017		
		31.12.	Maximum	Average
Trading book	Interest rate risk	0.6	2.5	1.5
	Currency risk	0.1	0.2	0.1
	Equity / index risk	0.4	2.2	1.0
	Credit spread risk	1.6	2.3	1.8
	Commodities risk	0.0	0.2	0.0
	Diversification	1.0	3.2	2.0
	Overall risk	**1.7**	**3.5**	**2.4**
Banking book	Interest rate risk	4.0	7.1	4.7
	Currency risk	0.1	0.2	0.1
	Equity / index risk	0.4	2.5	1.7
	Credit spread risk	2.6	3.6	3.2
	Commodities risk	(–)	(–)	(–)
	Diversification	3.1	5.9	4.4
	Overall risk	**4.0**	**7.0**	**5.2**

As was already the case in the previous year, risks relating to interest rates and credit spread risks represented the Bank's greatest market risks in 2018. The average risk level has fallen in both the trading book and the banking book compared with the previous year. The volatility of the value-at-risk has eased at the same time. This development is due mainly to lower market fluctuation.

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' for the trading book is also reported. This is based on the market fluctuation of the stress periods from September 2008 to September 2009. 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, 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. The stressed value-at-risk fluctuated more strongly than the normal value-at-risk over the course of 2018. This was the result of so-called 'gap' risks which arise in connection with exchange-traded knockout products. The amount of the stressed value-at-risk was always higher than the normal value-at-risk in 2018. The stressed value-at-risk was €4.4million 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. As value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences, 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 regarding the risk content of the portfolio. 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 WCMR department based on the overnight positions. WCMR reports various risk figures for the group-wide summary of market risks to the HSBC Group. In the event of an excessive 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 at present 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

(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 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 regular updating of the liquidity emergency plan is the responsibility of ALCM, while the measures for sourcing liquidity are reviewed by Treasury.

(d) Internal liquidity risk management and liquidity cushion

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

Similarly, the liquidity cushion is determined based on the regulatory requirements of the LCR and the NSFR. The inflows and outflows to be forecast therefore correspond to the net outflow of funds of the stress scenario implicitly modelled in the LCR, which shows both idiosyncratic and systemic stress elements. The net outflow of funds modelled in this stress scenario of the LCR is 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, Pfandbriefe as well as highly liquid equities, all of which are eligible for central bank borrowing with a few exceptions. Correspondingly, the net balance of the inflows and outflows after the realisation of the liquidity cushion must be clearly positive.

The Bank regularly makes sure whether the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be accessed and realised at any time. As at 31 December 2018, we had deposited assets with a collateral value of €1.32billion (2017: €2.51billion) at the Bundesbank, giving us potential access to central bank loans in this amount. As part of a test transaction to validate our emergency liquidity plan, we participated in an ECB main refinancing transaction to a minor extent in 2018.

The minimum regulatory LCR is 100 % since January 2018.

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 in a stress scenario defined by the regulatory authorities. The LCR determined for internal risk management came to 111.4 % (2017: 113.7 %) at the end of the year.

	Liquidity coverage ratio	
in %	**2018**	**2017**
31.12.	111.4	113.7
Minimum	111.4	113.7
Maximum	165.4	153.5
Average	141.4	137.1

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.

(e) 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 gives 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 including future interest payments are reported on an undiscounted basis.

Such undiscounted cash flows can deviate from the book value as is shown in the balance sheet. Please see the Note 'Remaining Maturities of Financial Instruments' with regard to the remaining maturities for financial assets.

in €m	31.12.2018						
		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	3,318.9	3,348.9	780.3	427.1	33.9	1.874.6	233.0
Customer accounts	14,861.4	14,874.5	14,246.1	382.9	203.8	0.6	41.1
Trading liabilities	1,825.9	2,589.0	188.7	235.8	634.3	185.1	1,345.1
Other liabilities	84.5	84.5	84.5	0.0	0.0	0.0	0.0
Subordinated capital	580.5	717.9	0.0	28.4	14.3	214.8	460.4
Sub-total	20,671.2	21,614.8	15,299.6	1,074.2	886.3	2,275.1	2,079.6
Financial liabilities outside the balance sheet							
Financial guarantees	2,237.1	2,237.1	2,237.1	0.0	0.0	0.0	0.0
Loan commitments	10,653.8	10,653.8	10,653.8	0.0	0.0	0.0	0.0
Total	**33,562.1**	**34,505.7**	**28,190.5**	**1,074.2**	**886.3**	**2,275.1**	**2,079.6**

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

in €m	31.12.2017						
		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	2,916.4	2,934.5	807.2	28.6	27.3	1,828.9	242.5
Customer accounts	14,591.7	14,597.8	13,819.3	537.7	198.9	0.6	41.3
Trading liabilities	2,365.2	3,161.0	210.3	185.9	1,022.0	289.4	1,453.4
Other liabilities	86.2	86.2	76.6	9.4	0.2	0.0	0.0
Subordinated capital	395.3	439.2	0.0	1.9	22.6	214.4	200.3
Sub-total	20,354.8	21,218.7	14,913.4	763.5	1,271.0	2,333.3	1,937.5
Financial liabilities outside the balance sheet							
Financial guarantees	2,495.3	2,495.3	2,495.3	0.0	0.0	0.0	0.0
Loan commitments	10,208.1	10,208.1	10,208.1	0.0	0.0	0.0	0.0
Total	**33,058.2**	**33,922.1**	**27,616.8**	**763.5**	**1,271.0**	**2,333.3**	**1,937.5**

* 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 February 2019 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.

Owing to the still low limit allocation and utilisation, established processes and experienced management on the trading and risk control side, and thanks to the Bank's market price risk management system, we expect to be able to react to market distortions in good time and that major losses from market risks are therefore unlikely. The experiences in connection with significant major events in recent years have confirmed this assumption. A very short term substantial interest rate increase represents the greatest market risk for the Bank. However, the Bank no longer expects an increase in key rates this year.

In view of the still stable macroeconomic environment to date 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 the slowdown in growth in China to continue. Should this transpire, exports to China could potentially fall, so that the economic situation of export-oriented enterprises could deteriorate. Furthermore, the situation in the individual sectors is defined by increased uncertainty, so that we can expect slightly higher counterparty default risk compared with the previous year. Owing to the risk concentration in the portfolio, individual defaults can already lead to notable higher risk provisioning requirements.

The further development of the geopolitical risk can only be predicted with difficulty. The potential exacerbation of the trade conflict between the US and China must be mentioned here in particular, which could have far-reaching repercussions for international trade. Another uncertainty is the Arab conflict (Saudi Arabia / Iran) and the potential implications for oil supply / the price of oil.

On the whole, we believe the threat from Brexit is manageable although short-term market turbulence can be expected. The HSBC Group conducted a stress test to estimate the impact of potential market turbulence following a no-deal Brexit on the Bank's figures and on its business operations in general. HSBC Germany participated in this exercise. The findings underline that we are well positioned in order to absorb potential shocks. Nonetheless, there are concerns about negative repercussions for our clients' business models, depending on the nature of the risks.

In order to guarantee a continuous service to its clients, regardless of the outcome of Brexit, the HSBC Group is making internal provisions on the assumption of a hard Brexit with no transitional rules and equivalence status. We are closely involved in the preparations, which largely comprise building up capacities and resources on the continent, specifically France. The preparations are proceeding on schedule. A possible residual risk still remains, which is based mainly on the still open-ended exit negotiations and on the resulting tight timeframe for implementing the extensive changes in HSBC's operative model in the UK and Europe.

The probability of occurrence of operational risk is higher compared to the previous years, due to the implementation of the more rigorous regulatory requirements, the projects in conjunction with the growth strategy and the replacement of the core banking system. 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, we see significantly increased business and strategic risk on account of the persistent low interest rate policy on the euro money market as well as external regulatory or political influences which the Bank cannot govern. We see substantial risk here for our profitability.

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 and the weak economy. It is not possible to make a comprehensive assessment of all general parameters and the impact that they will have on business activity, the 2019 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. 4 and section 315 para. 4 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 289f of the 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 Product 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 Product 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 Product Control and Accounting as well as the Chief Operating Officer Markets and heads 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 2018. Other members at this point in time were Andreas Schmitz, Dusseldorf, Daniela Weber-Rey, LL. M., Frankfurt am Main, und Dr. Oliver Wendt, Köln.

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 auditor is appointed by the Supervisory Board, observing the requirements of section 318 ff. German Commercial Code (HGB). In an Audit Committee meeting, the external auditor explains its main audit procedures and the relevant findings. 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 the GEOS system by HSBC Transaction Services GmbH, exchange-traded derivatives in the ION Trading system 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 Product 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 up to instrument level, with key differences thus being identified immediately 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, income from other financial assets mandatorily measured at fair value through profit or loss 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

As at 31 December 2018 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 Dusseldorf 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 2018, our share price declined by 21.46 % to € 57.50. The lowest fixing price of the year was € 53.50 and the highest € 73.50. From the initial issue price of DM190 (€97.20) per DM50 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
31.12.2017	34,088,053	73.21	2,495.59
31.12.2018	34,088,053	57.50	1,960.06

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

Dividends

For the 2018 financial year we propose paying a dividend of €2.50 per share (2017: €2.50 per share). With a dividend total of €85.2million (2017: €85.2million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2018.

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 six people on 31 December 2018.

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 02 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 Dusseldorf 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. Please see the note 'Treasury Bonds and Shares' in the Notes to the Consolidated Financial Statements regarding the information required by section 160 para. 1 no. 2 German Stock Corporation Act (AktG).

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*

For HSBC Germany sustainability means establishing business activities for the long term and taking social, ecological and economic aspects into consideration in the decisions we take. Both sustainable and economic growth can be promoted as a result.

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. 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 Dusseldorf, with which we have been linked since our foundation in 1785.

The financial and economic crisis has expressly underlined the importance of Corporate Responsibility in the core business. Our business model, which is geared towards sustainability, has proven itself in this period. We believe sustainable finance plays a central role in ensuring stability on the financial markets by taking social, environmental and economic aspects into consideration in company management. The growing significance of sustainable banking services and therefore the associated requirements made of its employees have already been a central topic for HSBC for some time. The Corporate Sustainability (CS) team, which coordinates our entire sustainability activities centrally and reports directly to the CEO, was therefore established in Germany in 2008.

We have financed economic growth, promoted international trade and overcome crises, such as economic crisis. We understand that governments, companies, the financial system and civil society have to work together in combating climate change and in their sustainability efforts.

We believe it is necessary more than ever today to pay particular attention to developing those abilities, business innovations and climate-efficient solutions that are urgently required to lastingly secure prosperity for all. For HSBC Germany, the following are the most important elements of sustainable growth that we can influence:

- **Sustainable financing**
  As one of the world's largest financial institutions, HSBC aims to be a leading, global partner in the transition to a carbon-free future. The Group has committed to providing USD100billion for sustainable financing and investments by 2025. A quarter of this amount was already invested in the first year after it was announced. We also want to improve the efficiency of our own business operations. HSBC will obtain 100 % of its global energy requirements from renewable energies by 2030.

- **Sustainable networks and entrepreneurship**
  Sustainable growth requires stable and responsible international trading networks. We work together with our business partners and with charitable organisations to promote business practices to protect the environment and human rights.

- **Abilities for the future**
  A rapidly changing world also requires special expertise for the labour market and knowledge of financial topics. We pass on the necessary knowledge and understanding of financial matters to our clients and partners so that they are successful in the globalised economy. We prepare our employees for the challenges presented by the globalised working world.

* unaudited

Corporate Sustainability at HSBC Trinkaus & Burkhardt AG
Corporate responsibility as an integrated corporate strategy

Economic responsibility

Sustainable finance

- Sustainable financial products, issue of "green" capital market products for issuers (including green bonds, promissory notes)
- Sustainable investment products for private and institutional investors (including HSBC Lower Carbon Funds)
- Comprehensive equity research in the area of SRI/Renewables
- Lending
- Sustainability Risk Rating as an obligatory component of the HSBC lending process

Ecological responsibility

Dealing with resources

- Reduction of the carbon footprint (REDUCE)
  - Use of green power and steady reduction of power consumption and CO2 emissions per employee
  - HSBC thermos cup
  - Environmental stipulations in purchasing guidelines
  - Employee sensitisation
- Involvement in HSBC Water Programme project; including the "water researcher" educational project

Social responsibility

Social commitment

- Social commitment
  - Die ARCHE e.V.
  - HSBC school project
  - "Text heroes" project
  - Deutschlandstipendium scholarship
- Additional benefits for employees
  - Company pension schemes
  - Compatibility of family and working life
  - Promotion of employee commitment

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

Sustainable Financing

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. A sustainability analysis is therefore 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 across all asset classes. By signing the Montréal Pledge in 2015, HSBC Global Asset Management has undertaken to report the carbon intensity of the portfolios. We are determined to further develop responsible investment in an integrated ESG.

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 ESG. In addition to 'best in class' approaches, we also offer a large number of thematic solutions, allowing us to meet our clients' needs requirements on an individual basis.

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 meanwhile subjected to controversial weapon-screening in the meantime in order to avoid the financing of weapons of mass destruction.

We also offer 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 ESG. We also organise sustainability roadshows, which enable well-known SRI companies to get into contact with international investors on the topic of sustainability.

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. The HSBC 'Agricultural Commodities Policy', which was introduced in 2014, was last revised and its content enhanced in February 2017, thus standardising the NDPE guidelines, which are becoming increasingly more common in the palm oil supply chain. The NDPE guidelines stands for "No Deforestation, No Peat and No Exploitation" rules. For this purpose, HSBC has joined the Banking Environment Initiative, which is convened by the Cambridge Institute for Sustainability Leadership. It has also joined the Tropical Forest Alliance, which is hosted by the World Economic Forum and brings together governments, NGOs and companies to reduce tropical deforestation, improve the livelihoods of smallholder farmers, conserve natural habitats, and protect tropical landscapes.

Since 2011 HSBC has severely curtailed the financing of new coal-fired power stations and has de facto given up funding thereof in 78 developed markets. It has extended this to all countries worldwide since April, with the exception of Bangladesh, Indonesia and Vietnam, where a transition period of five years exists provided there are no valid alternatives. In Bangladesh, for example, coal is the only source of energy that is realistic available to supply its population with electricity. Bearing in mind that 62 million people still have no access to electricity there, the demand for energy represents a balancing act for the Bank. Two of the United Nations' sustainable development goals must be combined: on the one hand, providing people with electricity and reducing the negative impact on the environment on the other. The Bank pursues the strategy here of supporting the energy companies by way of partnerships, to extend the renewable energies business.

Since 2003, we have already 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 training and advanced training relating to the assessment of sustainability risk. Special sustainability risk managers monitor the observance of these processes.

ESG Financing

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. HSBC was able to further improve its position in 2018 in the global Green Bond League Table for sustainable and social bonds and is one of the leading banks worldwide in this segment. In the German market HSBC acted as lead manager in numerous mandates, including for the state of North Rhine-Westphalia, NRW.BANK and for the benchmark Pfandbrief of Münchener Hypothekenbank eG, among others.

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.

This also includes establishing the Green Loan Principles in March 2019, which are based on the recommendations of the ICMA and the Loan Market Association (LMA) for supporting a consistent methodology across the entire green loan market.

We believe reducing global CO2 emissions is the most important challenge for society. We therefore want to develop strategies and show opportunities for promoting the change to a CO2-free economy together with our clients. With the HSBC Climate Change Center of Excellence, we also have a team of specialists whose aim it is to offer the best analysis on climate change and its impact on economies, industries and sectors. It has received several awards in recent years from the Thomson Reuters Extel Survey in the area of sustainability research. In order to be perceived to an even greater extent in public as an opinion leader, HSBC set up the Centre of Sustainable Finance as a global think-tank in 2017.

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, CO2 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 CO2 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 contributes to saving resources. Our employees use thermos cups since 2017. 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' developed in 2012, we support the 'Water Explorer' online educational project. In this context, Germany is one of a total of eleven countries to be part of the 'Water Explorer' project offered to pupils between the age of 8 and 14. 'Water Explorer' was conceived by the British NGO Global Action Plan and is accompanied in Germany by the organisation agado – Gesellschaft für nachhaltige Entwicklung, which was set up at the beginning of 2015. As the winners of the national competition, pupils from a school in Bavaria were able to qualify for the international final with their project ideas in 2017. A school class from Saxony Anhalt were winners of the national contest with its project ideas on 2018 and qualified for the international final. They went on to win one of five prizes in the 'conserve water' category, which were awarded at an international competition in London. Alongside Earthwatch, WaterAid and WWF are project partners of the 'HSBC Water Programme', which was extended for a further two years in 2017 in order to provide the employees with a greater understanding of the relevance of the sustainable use of global water resources.

Social responsibility

Alongside the responsibility in our core business, social commitment 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 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 Dusseldorf 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 Dusseldorf 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 Dusseldorf 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. One of the association's initiatives 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 fourth time in 2018. In order to extend our measures in this area, we are offering young people funded access to journalism and economic knowledge, by supporting the Rheinische Post newspaper's interactive 'Text heroes' project. Grade 8 students are given a copy of the Rheinische Post over a period of six weeks, with accompanying material provided for the lessons. They learn about media relations and qualitative reporting. The students are also given the opportunity to practice at being young journalists and write their own articles for the Rheinische Post.

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 worldwide, HSBC wants 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 Deutschland und DKMS (formerly German 'Deutsche Knochenmarkspenderdatei). 150 of our employees have registered with the DKMS in the meantime. New employees are offered registration with the DKMS within the scope of their onboarding when they start working at HSBC.

Reporting

The HSBC Group publishes its sustainability activities as part of the Strategic Report together with the Annual Report of the HSBC Group under http://www.hsbc.com/our-approach/measuring-our-impact.

Since 2017, HSBC includes climate-related risks in the voluntary reporting, thus reflecting our conviction that climate-related risks and opportunities are occurring already now and will materialise to an even greater extent in the future. To counter this risk, the expert commission – the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) published the recommendations for a standardised reporting framework for climate-related financial disclosures in 2017. The objective is to enable companies and investors to quantify the financial impact of climate change on the business model and to strengthen the resilience of the business strategy.

HSBC Germany is exempt from its own disclosure obligations, as the relevant local activities are reported to the HSBC Group, which draws up a non-financial Group report in line with EU guideline 2014/95/EU and makes it available to the public. The Bank has made a voluntary commitment to the following initiatives:

- Carbon Disclosure Project
- Diversity Charter
- Green Bond Principles
- Green Loan 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*

Training activities

There are currently 28 trainees and dual students working 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, four 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 eight (former) trainees in the HSBC Trinkaus & Burkhardt Group successfully completed their training in 2017. Thanks to the very good results in part that our trainees achieved in this year's final examinations, we have now received an award from the Dusseldorf Chamber of Commerce and Industry for the excellent services we provide in our professional training for the twelfth year in succession. We are also pleased that the second year of dual students also successfully completed their studies after three years.

Talent Management

We regard succession planning as a central element of the development of our managerial staff. Corresponding plans and targeted development measures are therefore regularly discussed and reviewed by the Management Board. Alongside the risk analysis, the roles and competencies that will be necessary in future are discussed, to agree on the individual suitability of any replacement and on targeted measures.

A total of 60 junior staff and senior managers participated in special development programmes in 2018. We also established the so-called HSBC University, to create new range of international and local development measures for senior managers in particular.

Furthermore, we further structured the early talent identification, in order to retain and promote up-and-coming high-potential senior managers. The performance and potential criteria that are applied throughout the Bank form the basis for this. In order to effectively implement our talent management, all measures are geared towards the Bank's strategy. We promote above all the regular and personal exchange between staff and superiors, in order to determine individual development measures promptly and transparently.

* unaudited

Career mobility

We want to retain qualified and talented employees and secure their experience and expertise for the continuation and development of new products and services. We see mobility – local and international – within the Bank as an important element of the targeted development of particularly deserving employees. Positions to be filled are also advertised internally, thus supporting mobility across the divisions and offering career opportunities to our employees.

Diversity & Inclusion

At the HSBC Trinkaus & Burkhardt Group, we see diversity and inclusion as a key factor to our success. We are convinced that a workforce that is defined by diverse thinking and abilities helps us to minimise risks and, above all, to find innovative solutions. Our objective is to create a corporate culture in which each individual can fulfil their full potential.

The promotion of female junior and senior management staff is a key element of our diversity and inclusion strategy. Important starting points are to continue furthering our talent development activities, in particular identifying female talent early on and the targeted promotion of women with development potential through leadership training and individual development plans. Additionally, the HSBC Trinkaus & Burkhardt Group participates regularly in special recruitment fairs for women in order to get into contact with female talent early on and to position HSBC on the market as an attractive employer.

We focused in particular in 2018 on heightening awareness of stereotypes and unilateral thinking and actions. By taking targeted measures to raise awareness for the so-called unconscious bias, we want to ensure that teams can utilise their diverse potential fully. We want to professionalise how we conduct ourselves in decision-making situations, both in relation the employee selection and assessment, as well as our dealings with clients and business partners.

By setting up three company kindergarten facilities, cooperate with the external service provider ‘PME Familienservice’, offer flexible employment options, we are working on creating an attractive bank for employers and promoting the work-life balance.

In the process of achieving a diverse corporate culture, networks initiated by the employees play an important role in dealing with the various aspects of diversity and inclusion to drive the interests of different groups. With ‘HSBC.Frauen.Männer.Dialog’, of which Carola von Schmettow is a patron, we have established a successful network in which career-oriented employees can exchange views and opinions.

The examination of the salary structures carried out every year has shown that male and female employees with comparable qualifications, activities and seniority are basically also paid the same. Isolated cases were reviewed individually and adjusted where necessary within the scope of the compensation process. An average of 1,225 female and 1,619 male employees were employed in 2018 (2017: 1,197 female and 1,616 male employees). There was an average of 332 (2017: 271) female and 33 (2017: 29) male part-time employees.

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. Depending on their requirements, we help our employees to advance by offering them individual product and subject-specific training as well as targeted 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 resort here on the one hand to a diverse offer from the HSBC Group, which we supplement with local programmes as well as public, external seminars.

We also offer a wide range of cross-divisional measures such as training sessions on presentation and negotiating techniques, communication and conducting discussions, as well as conflict management. Foreign language courses are among our training activities and are also offered in preparation for secondments abroad within the HSBC Group.

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 are among our competent partners for these training measures.

Overall, we make sure that our employee training does not take place solely in classic seminars. Significant emphasis is also placed on on-the-job learning and learning from other colleagues. Our senior managers support our employees through regular feedback and development talks.

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.

Compensation report

Basic features of the compensation systems

As a credit institution, the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) 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, the Bank is to be classified as a major institution. 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, compensation strategy and systems are stipulated firstly by the Management Board and secondly by the Supervisory Board; the control units are duly included in their preparation. The Remuneration Control Committee set up by the Supervisory Board for questions relating to compensation consists of five (temporarily four) members of the Supervisory Board. At present these are the Chairman of the Supervisory Board, two employees' representatives as well as one representative of the majority shareholder.

Five Supervisory Board meetings and four committee meetings were held in 2018, which were also attended by the remuneration officer and representative appointed in accordance with section 23 of the Remuneration Ordinance for Institutions (InstitutsVergVO) alongside the individual 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 – including the calculation of the total amount of variable compensation and the analysis of the Material Risk Takers – were discussed regularly with the company's Management Board members at the meetings.

External advisory services were also used 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 contents of the compensation strategy were adjusted slightly in 2018. These adjustments, which are based on regulatory provisions, did not have any effect on the fixed and variable compensation components.

The total amount of the variable compensation paid to Management Board members and employees of the Group is geared towards the available bonus pool, which is determined in a standardised, transparent and formalised process. An equal balance between the risk-bearing capacity of the German banking group in accordance with section 23 of the Remuneration Ordinance for Institutions (InstitutsVergVO) on the one hand and the competitiveness of the individual compensation on the other is decisive. Account is taken of – including the risks involved – of the performance of the Bank and the respective division, as well as the individual performance, whereby a sustained performance, the risks associated with the performance, as well as impeccable 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 and in the compensation systems.

Parts of the variable compensation for some employee groups are granted over a retention period of several years in accordance with the regulatory provisions, in order to support the sustainability of the performance. The variable compensation may not be claimed during this period. Rather, it is subject to standardised and formalised malus regulations applicable throughout the Group. Accordingly, these variable compensation components can be withheld in full or in part, if the earnings contribution originally acknowledged turns out to be not sustainable or the recipient's conduct is considered to be questionable in hindsight. Furthermore, the conduct adjustments process regulates the treatment of infringements against statutory provisions, HSBC Group guidelines, compliance provisions, as well as general behavioural principles in working life that are to be observed by Management Board members and employees. Non-observance can lead to the reduction or loss of variable compensation, among other things.

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.

Price risks and opportunities arising from the shares granted lie exclusively with the respective members of the Management Board or employees, in the retention period and – as applicable – up to the end of the holding period. They 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 individual 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), continue to apply and 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 / 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 manner in which the variable compensation is paid out. 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, 'Special rules for Material Risk Takers'.

Individual, special regulatory requirements also apply to employees in control units. These are also presented in a separate section.

Compensation of the Executive and Supervisory Bodies

General principles of the compensation of the members of the Management Board

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

The compensation 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 for some Management Board members. 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 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 takes the provisions of the German Banking Act (KWG), the Remuneration Ordinance for Institutions (InstitutsVergVO) and, where necessary, the capital investment legislation into consideration and is geared towards the HSBC Group's provisions applicable throughout the Group.

Pursuant to section 18 of the Remuneration Ordinance for Institutions (InstitutsVergVO) in conjunction with article 3 Delegated Regulation (EU) no. 604/2014, Management Board members are to be classified as Material Risk Takers. Furthermore, all members of the Management Board of the HSBC Trinkaus & Burkhardt Group are classified as Group Material Risk Takers due to HSBC Group regulatory provisions, and one of them as a PRA Senior Manager Material Risk Taker.

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 14 June 2017, 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 €5,513.8thousand, the sum of the compensation components defined as fixed compensation pursuant to section 2 para. 6 of the Remuneration Ordinance for Institutions (InstitutsVergVO) for all members of the Management Board was higher than the previous year (€4,743.4thousand), taking into account the changes to the composition of the Management Board. The variable compensation component amounted to €4,352.8thousand (2017: €5,913.3thousand). Remuneration of the Supervisory Board members for the 2018 financial year amounted to €2,296.8thousand (2017: €3,077.6thousand) in the form of shares and €2,056.0thousand (2017: €2,835.7thousand) in cash. The variable share of the Management Board remuneration for the 2018 financial year includes a long-term compensation component of €2,708.1thousand (2017: €3,644.7thousand), of which €1,233.6thousand (2017: 1,701.4thousand) was accounted for by the variable compensation in cash and €1,474.4thousand (2017: €1,943.3thousand) by the variable compensation in HSBC Holdings plc shares.

Provisions totalling €14.8million (2017: €14.6million) 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, €0.7million (2017: €0.9million) was recognised in the income statement.

Severance payments for members of the Management Board and Material Risk Takers in the amount of €0.1million (2017: €0.2million) were granted in 2018.

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 this amount and the Deputy Chairman 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.

Remuneration of the Supervisory Board members amounted to €1,190,049.32 (2017: €1,217,535.61) for the 2018 financial year. The members of the Advisory Board received remuneration totalling €422,805.82 (2017: €428,775.00). As in the previous year, fees were also paid in this financial year to one member of the Supervisory Board for consultancy services provided. These totalled €59,500.00 (2017: €119,000.00). No separate pension obligations exist for Supervisory Board members. The general rules for employees, former Managing Partners and former members of the Management Board of the Bank apply for the pension obligations to the employee representatives as well as former members of the Management Board and the former members of the Management Board.

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 €3.9million (2017: €4.4million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €44.3million (2017: €46.6million).

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. As in the previous year, no rent guarantees or loans were granted to members of the Management Board in the

* plus other compensation in the amount of €82.2thousand comprising mainly compensation in the form of use of a company car, insurance premiums plus other valuable benefits

period under report (2017: one member of the Supervisory Board had an unused current account credit facility of €50thousand).

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 25a para. 5 of the 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, as well as the corporate and risk culture. Performance-related remuneration which is in line with the market conditions remains of major importance for staff motivation, regardless of whether they are tariff or non-tariff employees. The long-term oriented compensation components that were implemented at the same time take the regulatory requirements into consideration and guarantee that in the case of risks determined ex-post and lack of sustainability of the performance, the compensation may be withheld of reclaimed. 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, 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 and the Supervisory Board. 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 special provisions of the capital investment legislation. Special requirements that apply to individual employee groups under the Remuneration Ordinance for Institutions (InstitutsVergVO) are specifically explained in separate chapters.

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

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. This is aimed at setting incentives while avoiding disproportionately high risks from being taken. When evaluating performance, individual performance as well as the Bank's and the individual divisions' performances are taken into account. 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.

Subject to the Special rules for Material Risk Takers, the variable compensation for the 2018 financial year will be paid, observing the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO), the 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, entirely in cash in March 2019 up to a euro equivalent of USD75,000. If this amount is exceeded, between 10 % and 50 % of the variable compensation will be paid 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 2019 and a third of the shares of HSBC Holdings plc allocated (provisionally) will be transferred in each of the following three years

In addition, individual employees who show particularly positive conduct and therefore put the HSBC Trinkaus & Burkhardt Group's values into practice in an outstanding way and promote them and / or represent an outstanding example and role model for other employees are to be rewarded by one-off voluntary special payments (recognition). The recognitions are determined by the Management Board on the basis of justified proposals and granted in addition to the performance-related variable compensation.

Special rules for Material Risk Takers

The variable compensation 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 group, 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 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 other employee groups) and the variable compensation, a formal performance management was conducted with regard to section 14 German Remuneration Ordinance for Institutions (InstitutsVergVO) (as well as BT 8 MaComp). Based on the individual targets agreed at the start of the year, the results are evaluated at year-end and performance and behaviour ratings assigned. These ratings 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 an allocation of shares of HSBC Holdings plc. in principle in accordance with the requirements of the German Remuneration Ordinance for Institutions (InstitutsVergVO), whereby shares allocated provisionally are not entitled to dividends. Interest is not granted either on the deferred cash units.

60 % of the variable compensation will be transferred in the 2019 financial year. The remaining 40 % of the variable compensation, granted only provisionally to begin with, will be transferred in the next three financial years, of which a third in each case. Material Risk Takers and Group Material Risk Takers, whose variable compensation exceeds GBP500,000, will receive only 40 % of the variable compensation in the 2019 financial year. The remaining share will be transferred in each of the next three financial years, of which a third in each case.

Material Risk Takers who are members of the Management Board or the Bank's top management level reporting directly to the Management Board also receive only 40 % of the variable compensation in the 2019 financial year. However, the remaining share will be transferred in each of the next five financial years, of which 20 % in each case, so as to reflect the regulatory provisions and sustainability.

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, also at 20 % in each case.

For Material Risk Takers a holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc allocated as variable compensation.

Over and above the general malus regulations, compensation components already paid out may be reclaimed up to a period of two years after allocation of the last retained compensation components, within the scope of existing clawback provisions for Material Risk Takers. This clawback period is a standard seven years for Group Material Risk Takers.

Special rules for employees in control units

Control units within the meaning of the Remuneration Ordinance for Institutions (InstitutsVergVO) at the HSBC Trinkaus & Burkhardt Group are the Wholesale Credit and Market Risk – Credit Risk, Wholesale Credit and Market Risk – Risk Control, Operational Risk and Information Security, Regulatory Compliance, Financial Crime Compliance, Internal Audit and Human Resources units.

In accordance with section 9 para. 2 of the Remuneration Ordinance for Institutions (InstitutsVergVO), the compensation for employees of these units is focused on the fixed compensation component. This means that compensation decisions ensure that the variable compensation is maximum one third of the total compensation and this threshold may only be exceeded in specially authorised, absolute exceptions. The share of the variable compensation never exceeded 50 % of the total compensation in the 2018 financial year.

Quantitative information on 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. 1 of Regulation (EU) No 575/2013:

31.12.2018	Number of beneficiaries of fixed compensation*	Total fixed compensation (€m)	Number of beneficiaries of variable compensation	Total variable compensation for the 2018 financial year (€m)	Of which total variable compensation paid in cash (€m)	Of which total variable compensation paid in instruments*** (€m)
Management board	6	5.5	5	4.4	2.1	2.3
Material RiskTaker**	316	51.3	306	27.3	15.3	12.0

31.12.2017	Number of beneficiaries of fixed compensation*	Total fixed compensation (€m)	Number of beneficiaries of variable compensation	Total variable compensation for the 2018 financial year (€m)	Of which total variable compensation paid in cash (€m)	Of which total variable compensation paid in instruments*** (€m)
Management board	6	5.4	6	6.4	3.1	3.3
Material RiskTaker**	333	48.3	308	30.8	17.3	13.5

* Fixed remuneration pursuant to section 2 (6) Ordinance for Institutions (InstitutsVergVO)
** excluding members of the Supervisory Board
*** shares in HSBC Holdings plc

31.12.2018	Total outstanding deferred compensation (€m)	Of which already earned (€m)	Of which still to be earned (€m)	Deferrals granted in the financial year (€m)	Deferrals paid out/ allocated in 2018 (€m)	Total amount of deferral reductions (€m)
Management board	10.7	0.0	10.7	2.7	2.6	0.0
Material Risk Taker	35.8	0.0	35.8	11.4	12.0	0.0

31.12.2017	Total outstanding deferred compensation (€m)	Of which already earned (€m)	Of which still to be earned (€m)	Deferrals granted in the financial year (€m)	Deferrals paid out/ allocated in 2017 (€m)	Total amount of deferral reductions (€m)
Management board	10.5	0.0	10.5	4.0	3.5	0.0
Material Risk Taker	37.1	0.0	37.1	13.0	10.6	0.0

No payments at the start of a contract of employment were made in 2018, as in the previous year. The equivalent of shares allocated provisionally with no dividend entitlement was calculated with the price of the shares of HSBC Holdings plc.

31.12.2018	Severance payments made in the financial year (€m)	Number of beneficiaries of the severance payments made	Number of severance payments granted in the financial year (€m)	Number of beneficiaries of the severance payments granted
Members of the Management Board / risk takers*	0.2	2	0.1	1

* 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.

31.12.2017	Severance payments made in the financial year (€m)	Number of beneficiaries of the severance payments made	Number of severance payments granted in the financial year (€m)	Number of beneficiaries of the severance payments granted
Members of the Management Board / risk takers*	2.1	9	0.2	3

* 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.

The highest single compensation paid in 2018 was €160.0thousand.

Five persons (2017: five persons) were provisionally granted compensation between €1.0million and €1.5million, one person (2017: one person) between €1.5million and €2.0million, two persons (2017: three persons) between €2.0million and €2.5million and no-one (2017: one person) between €2.5million and €3.0million in respect of the 2018 financial year during the period under report.

The overall amount of fixed compensation paid in the HSBC Trinkaus & Burkhardt Group in 2018, including the fixed compensation paid for the Management Board, came to €250.2million. (2017: €207.1million). In 2018, 1,781 persons (2017: 1,740 persons) were promised variable compensation for the 2018 financial year totalling €56.3million (2017: €62.3million). This figure includes the variable compensation for the Management Board. The overall amount is split between the individual divisions as follows:

31.12.2018	Total fixed compensation (€m)	Total variable compensation for the financial year (€m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	144.0	41.6	988
Private Banking and Asset Management	27.0	5.9	190
Functions and HOST	79.2	8.8	603

31.12.2017	Total fixed compensation (€m)	Total variable compensation for the financial year (€m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	120.1	47.2	979
Private Banking and Asset Management	22.4	5.8	177
Functions and HOST	64.6	9.3	584

The equivalent of shares allocated provisionally for MRTs with no dividend entitlement was calculated with the price of the shares of HSBC Holdings plc.

Corporate Government Statement

The Management Board and the Supervisory Board of the Bank have submitted their declaration regarding the recommendations of the 'Government Commission for the German Corporate Governance Code' required under section 161 of the German Stock Corporation Act (AktG) and drawn up a Report on Corporate Governance and made both documents permanently available to the public on the HSBC Trinkaus & Burkhardt AG homepage (Internet link: ttp://www.about.hsbc.de/de-de/investor-relations/corporate-governance).

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2018*	31.12.2017	Change	
				in €m	in %
Cash reserve	(20)	3,750.5	3,679.3	71.2	1.9
Loans and advances to banks	(6, 21)	1,460.7	858.0	602.7	70.2
Loans and advances to customers	(6, 22)	10,749.8	9,348.9	1,400.9	15.0
of which pledged as collateral		1,714.9	1,467.7	247.2	16.8
Trading assets	(6, 23)	2,876.7	3,702.1	– 825.4	– 22.3
of which pledged as collateral		93.3	100.0	– 6.7	– 6.7
Positive market values of derivative financial instruments*	(6, 24)	1,265.6	1,420.8	– 155.2	– 10.9
Other financial assets mandatorily measured at fair value through profit or loss	(6, 25)	192.2	n/a	n/a	n/a
Financial assets	(6, 26)	3,532.1	4,874.2	– 1,342.1	– 27.5
of which pledged as collateral		850.9	1,072.6	– 221.7	– 20.7
Property, plant and equipment	(10, 27)	115.5	111.4	4.1	3.7
Intangible assets	(11, 27)	69.2	29.6	39.6	> 100
Taxation recoverable	(15, 28)	91.9	64.9	27.0	41.6
of which current		23.7	7.7	16.0	> 100
of which deferred		68.2	57.2	11.0	19.2
Other assets	(29)	179.9	189.7	– 9.8	– 5.2
Total assets		**24,284.1**	**24,278.9**	**5.2**	**0.0**

*The information as at 31 December 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details are available in the Notes to the consolidated financial statements.

Liabilities in €m	(Note)	31.12.2018*	31.12.2017	Change	
				in €m	in %
Deposits by banks	(6, 32)	3,318.9	2,916.4	402.5	13.8
Customer accounts	(6, 33)	14,861.4	14,591.7	269.7	1.8
Trading liabilities	(6, 34)	1,825.9	2,365.2	– 539.3	– 22.8
Negative market values of derivative financial instruments	(6, 35)	978.7	1,248.1	– 269.4	– 21.6
Provisions	(8, 14, 36)	167.5	177.1	– 9.6	– 5.4
Taxation	(15, 38)	31.1	41.9	– 10.8	– 25.8
of which current		31.1	41.9	– 10.8	– 25.8
of which deferred		0.0	0.0	0.0	–
Other liabilities	(39)	247.0	246.8	0.2	0.1
Subordinated capital	(40)	580.5	395.3	185.2	46.9
Shareholders' equity	(41)	2,273.1	2,296.4	– 23.3	– 1.0
Share capital	(41)	91.4	91.4	0.0	0.0
Capital reserve	(41)	720.9	720.9	0.0	0.0
Additional Tier 1 capital	(41)	235.0	235.0	0.0	0.0
Retained earnings	(41)	1,294.2	1,257.5	36.7	2.9
Valuation reserve for financial instruments (IAS 39)	(41)	n/a	79.2	n/a	n/a
Valuation reserve for debt instruments measured at fair value with no effect on income (IFRS 9)	(18, 41)	25.2	n/a	n/a	n/a
Valuation reserve for equity instruments measured at fair value with no effect on income (IFRS 9)	(18, 41)	6.6	n/a	n/a	n/a
Valuation reserve for the remeasurement of the net pension obligation	(41)	– 100.7	– 89.1	– 11.6	13.0
Valuation reserve from currency conversion	(3, 41)	0.4	1.5	– 1.1	– 73.3
Total before non-controlling interests		2,273.0	2,296.4	– 23.4	– 1.0
Non-controlling interests		0.1	0.0	0.1	–
Total liabilities		**24,284.1**	**24,278.9**	**5.2**	**0.0**

*The information as at 31 December 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details are available in the Notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

in €m	(Note)	2018*	2017	Change	
				in €m	in %
Interest income from financial assets measured at amortised cost and at fair value with no effect on income	(42)	309.3	275.0	34.3	12.5
Interest income from other financial assets mandatorily measured at fair value through profit or loss	(42)	7.5	n/a	n/a	n/a
Interest income**	(42)	316.8	275.0	41.8	15.2
Interest expense**	(42)	100.7	77.1	23.6	30.6
Net interest income	(17, 42)	216.1	197.9	18.2	9.2
Net loan impairment provisions in the lending and securities business	(8, 43)	– 5.1	23.9	– 29.0	> 100.0
Fee income		635.0	676.8	– 41.8	– 6.2
Fee and commission expenses		204.3	193.9	10.4	5.4
Net fee income	(17, 44)	430.7	482.9	– 52.2	– 10.8
Net trading income	(17, 45)	72.3	83.9	– 11.6	– 13.8
Gains and losses from the disposal of assets measured at amortised cost	(46)	0.0	n/a	n/a	n/a
Net profit from other financial assets mandatorily measured at fair value through profit or loss	(47)	– 14.0	n/a	n/a	n/a
Income from financial assets	(49)	17.8	53.2	– 35.4	– 66.5
Administrative expenses	(48)	573.5	559.2	14.3	2.6
Net other income	(50)	16.6	16.5	0.1	0.6
Pre-tax profit		171.1	251.3	– 80.2	– 31.9
Tax expenses	(15, 51)	53.5	78.5	– 25.0	– 31.8
Net profit		**117.6**	**172.8**	**– 55.2**	**– 31.9**
Consolidated profit/loss attributable to minority shareholders		0.0	0.0	0.0	0.0
Consolidated profit/loss attributable to HSBC Trinkaus & Burkhardt shareholders		117.6	172.8	– 55.2	– 31.9

* The information as at 31 December 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details are available in the Notes to the consolidated financial statements.

** Interest from hedge accounting is reported on a net basis in line with the market standard. The prior-year figures were adjusted.

Earnings per share (€)	**(Note)**	**31.12.2018**	**31.12.2017**
Undiluted	(53)	3.18	4.80
Diluted	(53)	3.18	4.80
Average number of shares in circulation in million	(53)	34.1	34.1

Reconciliation from net income to comprehensive income

in €m	**(Note)**	**2018***	**2017**
Net profit		117.6	172.8
Gains/losses after tax reclassified in the income statement		– 40.7	– 38.6
of which from financial instruments (IAS 39)		n/a	– 36.4
of which from debt instruments measured at fair value with no effect on income (IFRS 9)	(41)	– 39.6e	n/a
of which from currency conversion		– 1.1	– 2.2
Gains/losses after tax not reclassified in the income statement		– 12.3	8.3
of which from equity instruments measured at fair value with no effect on income (IFRS 9)	(41)	– 0.7	n/a
of which from the remeasurement of the net pension obligation	(36)	– 11.6	8.3
Other income for the period		– 53.0	– 30.3
Comprehensive income		**64.6**	**142.5**
Attributable to:			
minority shareholders		0.0	0.0
HSBC Trinkaus & Burkhardt shareholders		64.6	142.5

* The information as at 31 December 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details are available in the Notes to the consolidated financial statements.

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 instruments (IAS 39)	Valuation reserve for the remeasurement of the net pension obligation	Valuation reserve from currency conversion	Consolidated shareholders' equity
(Note)	(41)	(41)	(41)	(41)	(41)	(41)	(41)	(41)
As at 31.12.2016	**91.4**	**720.9**	**235.0**	**1,170.8**	**115.6**	**– 97.4**	**3.7**	**2,240.0**
Dividend distribution				– 86.1				– 86.1
Addition from net profit for the year				172.8				172.8
Capital increase								
Other income for the period					– 36.4	8.3	– 2.2	-30.3
Other changes								
As at 31.12.2017	**91.4**	**720.9**	**235.0**	**1,257.5**	**79.2**	**– 89.1**	**1.5**	**2,296.4**

* inc. consolidated profit available for distribution

in €m	Share capital	Capital reserve	Additional Tier 1 capital	Retained earnings*	Valuation reserve for financial instruments (IAS 39)	Valuation reserve for debt instruments measured at fair value with no effect on income (IFRS 9)	Valuation reserve for equity instruments measured at fair value with no effect on income (IFRS 9)	Valuation reserve for the remeasurement of the net pension obligation	Valuation reserve from currency conversion	Consolidated shareholders' equity
(Note)	(41)	(41)	(41)	(18, 41)	(41)	(18, 41)	(18, 41)	(41)	(41)	
As at 31.12.2017	**91.4**	**720.9**	**235.0**	**1,257.5**	**79.2**	**n/a**	**n/a**	**– 89.1**	**1.5**	**2,296.4**
Adjustments resulting from the initial application of IFRS 9				17.6	– 79.2	64.8	7.3			10.5
As at 01.01.2018	91.4	720.9	235.0	1,275.1	0.0	64.8	7.3	– 89.1	1.5	2,306.9
Dividend distribution				–98.5**						– 98.5
Addition from net profit for the year				117.6						117.6
Capital increase										0.0
Other income for the period						– 39.6	– 0.7	– 11.6	– 1.1	– 53.0
Other changes***										0.1
As at 31.12.2018	**91.4**	**720.9**	**235.0**	**1,294.2**	**0.0**	**25.2**	**6.6**	**– 100.7**	**0.4**	**2,273.1**

* inc. consolidated profit available for distribution
** inc. distribution on additional Tier 1 capital of €13.3million
*** Capital contribution non-controlling interests €0.1million

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	(Note)	2018	2017
Net profit		117.6	172.8
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		22.6	174.6
Net profit from the sale of investments and property, plant and equipment		– 18.0	– 14.0
Other adjustments (net)		– 108.9	– 90.1
Sub-total		13.3	243.3
Changes to assets and liabilities from operating activities after adjustment for non-cash components			
Loans and advances to banks	(21)	– 602.4	397.8
Loans and advances to customers	(22)	– 1,387.3	– 912.1
Trading positions and derivatives	(23, 24, 34, 35)	171.9	552.5
Other assets		1,052.3	410.9
Liabilities	(32, 33)	672.2	2,053.2
Other liabilities		– 10.3	– 150.4
Total adjustments		– 103.6	2,351.9
Interest receipts		301.3	293.4
Dividend receipts		2.1	2.7
Interest payments*		– 75.8	– 79.4
Income taxes paid		– 74.3	– 95.2
Cash flow from operating activities		**63.0**	**2,716.7**
Proceeds from the sale of			
financial investments		0.9	47.2
Property, plant and equipment	(27)	1.8	1.9
Payments for the acquisition of			
financial investments		– 1.5	0.0
Property, plant and equipment	(27)	– 65.7	– 50.4
Cash flow from investing activities		**– 64.5**	**– 1.3**
Dividends/interest paid to HSBC Trinkaus shareholders		– 98.5	– 86.1
Adjustments to subordinated capital (inc. interest)*		171.1	–57.3
Adjustments to Additional Tier 1 capital	(41)	0.0	0.0
Net cash provided by the capital increase		0.1	0.0
Cash flow from financing activities		**72.7**	**– 143.4**

Cash and cash equivalents at end of prior period	**(20)**	**3,679.3**	**1,107.3**
Cash flow from operating activities		63.0	2,716.7
Cash flow from investing activities		– 64.5	– 1.3
Cash flow from financing activities		72.7	– 143.4
Cash and cash equivalents at end of period	**(20)**	**3,750.5**	**3,679.3**

* The interest payments on subordinated capital were reported the previous year as part of cash flow from operating activities in the amount of €16.3million (prior-year figures adjusted).

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 Dusseldorf. Together with the companies over which HSBC Trinkaus exercises dominant influence, HSBC Trinkaus engages in banking business and provides all manner of financial services.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Dusseldorf, for the 2018 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 315e (1) of the German Commercial Code (HGB) have also been taken into consideration. The Group Management Report that must also be prepared also includes the report on the opportunities and risks associated with future development (Risk Report). The information contained in the Management 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 risk provisioning in the lending and securities business, 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 consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated cash flow statement, and the Notes. Segment reporting takes place in the Notes.

At the end of 2018, HSBC Holdings plc had an indirect interest of 80.7 % (2017: 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 has changed with respect to the previous year, in so far as we have no longer included Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Dusseldorf as an independent enterprise in the consolidated financial statements, as it was merged into the consolidated HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Dusseldorf with effect from 1 January 2018. Additionally, HSBC Operational Services GmbH, which was established in July 2018, will be included in the consolidated financial statements. HSBC Transaction Services GmbH holds a majority stake in the enterprise and is expected to assume the operating business processes for securities processing for clients. The minority shares will be recognised as "minority interests".

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 21 (International Accounting Standards), we distinguish all assets and liabilities denominated in foreign currency in monetary and non-monetary items. Monetary items denominated in foreign currency are on the balance sheet date are calculated on the balance sheet date using the reporting date. Revaluations resulting from the currency translation of monetary items are recognised in the income statement. Non-monetary items, which are valued at historical acquisition or production cost, are converted at the rate on the date of the transaction. Non-monetary items measured at their fair value are converted at the exchange rate on the date on which the fair value is calculated. In the case of non-monetary items, the treatment of currency conversion results depends on how the other revaluation results of the corresponding item 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 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 are presented in shareholders' equity under the valuation reserve from currency conversion 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 '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

The provisions for the recognition of financial instruments have changed from last year. Firstly, the accounting and measurement principles for financial instruments under IFRS 9 that are applicable for the reporting year are presented below. Given that the reference period was not restated retroactively under the transitional arrangements pursuant to IFRS 9, the financial instruments in the reference period are recognised pursuant to the provisions of IAS 39. For this reason, we have also stated below the accounting and measurement principles applicable to the reference period for financial instruments under IAS 39. The same applies for the presentation of the Note 'Risk Provisioning in the Lending and Securities Business'. Further explanations on the initial application of IFRS 9 can be found in the Note 'Change in Accounting Policies'.

Financial instruments under IFRS 9 (since 1 January 2018)

Classification and measurement of financial instruments

Recognition

In accordance with IFRS 9, financial instruments are initially recognised in the balance sheet when the Group becomes a contractual party to the corresponding agreement. 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 contractual rights of the Group to receipt of the cash flows from the financial instrument are met, cancelled or have expired, or the Group has transferred all material risks and opportunities related to the financial instrument. 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). No transfers were made during the reporting period that would have led to recognition in the amount of the residual risk items.

Transferred financial instruments that do not qualify for derecognition comprise 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 and securities lending transactions remain largely with the transferor.

Reporting

The reporting and classes of financial instruments are included in the following overview.

Measurement approach	Measurement classes (IFRS) 7/ Balance sheet items	Measurement categories (IAS 39)	Measurement classes (IFRS 9)
Measurement at amortised cost	Cash reserve	Loans and receivables (LaR)	Measurement at amortised cost (AC)
	Loans and advances to banks	Loans and receivables (LaR)	Measurement at amortised cost (AC)
	Loans and advances to customers	Loans and receivables (LaR)	Measurement at amortised cost (AC)
	Deposits by banks	Other liabilities (OL)	Measurement at amortised cost (AC)
	Customer accounts	Other liabilities (OL)	Measurement at amortised cost (AC)
	Subordinated capital	Other liabilities (OL)	Measurement at amortised cost (AC)
	Contingent liabilities on guarantees and indemnity agreements		
	Irrevocable loan commitments		
Measurement at fair value	Trading assets / liabilities	Held-for-trading (HfT)	Measurement at fair value through profit or loss (HfT)
	Positive / negative market values from derivative financial instruments	Held-for-trading (HfT)	Measurement at fair value through profit or loss (HfT)
	Other financial assets mandatorily measured at fair value through profit or loss		Measurement at fair value through profit or loss (mFVPL)
	Financial assets	Available-for-sale (AfS)	Measurement at fair value without effect on the income statement with or without recycling (FVOCImR or FVOCIoR)

We deal with the information on risks arising from financial instruments 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 at the time of recognition.

In addition, we allocate all financial instruments at initial application to the measurement classes as defined in IFRS 9, which are decisive for the subsequent measurement. The allocation of financial assets to the measurement classes under IFRS 9 is based on the one hand on the business model underlying the management of these assets (business model criteria) and on the structure of the contractual cash flows of the respective financial assets (cash flow criteria) on the other. The allocation of financial liabilities depends on whether the liabilities were included in conjunction with the trading activities or designated at fair value through profit or loss or not, at the time of recognition.

We have implemented the rules of IFRS 9 as follows at the HSBC Trinkaus & Burkhardt Group:

Measurement at amortised cost
For financial assets to be allocated to the financial assets measured at amortised cost class, the following conditions have to be met cumulatively:

1. The objective of the business model of the division in which the financial asset is held is to hold the financial asset to collect the contractual cash flows ("hold" business model).

2. The contractual terms of the financial asset provide for cash flows at set times, which represent exclusively principal and interest on the outstanding capital.

The aforementioned criteria of the loans and receivables in the classic lending business are met in the HSBC Trinkaus & Burkhardt Group. These financial instruments are reported under loans and advances to banks and loans and advances to customers. We recognise interest from the lending business in net interest income. Discounts and premiums are collected using the effective interest method. Impairments on loans and receivables are recognised as net loan impairment provision, and reduce the book value shown in the balance sheet accordingly. In the event of an isolated unscheduled sale of financial instruments (for example, as a result of a transfer), despite the general intention to hold these financial assets, we report the resulting results in the item 'Gains and losses from the disposal of assets measured at amortised cost'.

In addition, we allocate all financial liabilities that are not entered into in conjunction with the trading activities to this measurement category. We report these financial liabilities in 'deposits by banks, 'customer accounts' and 'subordinated capital'. Interest from these liabilities are included in net interest income. Discounts and premiums are collected using the effective interest method. Non-interest bearing liabilities, such as zero coupon instruments, are measured at their interest rate as at the balance sheet date.

Please refer to Note 8 'Risk Provisioning in the Lending and Securities Business' for information on the regulations on impairment of the financial assets measured at amortised cost.

Measurement at fair value without effect on the income statement
For financial assets to be allocated to the class of financial assets measured at fair value without effect on the income statement, the following conditions have to be met cumulatively:

1. The business model of the division in which the financial asset is held provides for the holding as well as the sale of the financial assets ("hold and sell" business model).

2. The contractual terms of the financial asset provide for cash flows at set times, which represent exclusively principal and interest on the outstanding capital.

In the HSBC Trinkaus & Burkhardt Group, this concerns the bonds and other fixed-income securities held from a financial asset and liquidity security perspective, and promissory note loans. We report these debt instruments in the item financial assets. We report interest from these financial assets in net interest income. The subsequent measurement of these financial instruments is at fair value. The same valuation methods are used for the fair value measurement of these financial instruments as for financial instruments measured at fair value through profit or loss (see following section). Changes in the value vis-à-vis the amortised costs are reported without effect on income in shareholders' equity in the valuation reserve for debt instruments measured at fair value without effect on income. The impairment provisions of IFRS 9 that are also applicable to these holdings do not have any consequences for balance sheet reporting at fair value, as the net loan impairment provision for these financial instruments is recognised as an expense as an adjustment to the valuation reserves reported within shareholders' equity. Upon disposal of these financial assets, the valuation reserves reported within shareholders' equity until then are reclassified in the income statement (recycling) and reported in income from financial assets.

Furthermore, because of a special regulation of IFRS 9, we allocate selected equity instruments to the measurement category of financial assets measured at fair value without effect on income. In doing so, we apply an option whereby individual equity instruments not held for trading can be allocated voluntarily and irrevocably to this measurement class at the time of recognition or initial application of IFRS 9. HSBC Trinkaus & Burkhardt Group makes use of this special regulation, as these selected equity instruments are not held primarily for value enhancement reasons. We report the profit distribution received from these equity instruments held as strategic investments in net interest income. Subsequent measurement is at fair value, whereby the changes in value are recognised without effect on income in shareholders' equity in the valuation reserve for debt instruments measured at fair value without effect on income. Upon disposal of these financial assets, we do not recognise the valuation reserves reported up to then in shareholders' equity in the income statement but within shareholders' equity in retained earnings (no recycling). There was no derecognition of these selected equity instruments during the period under report. No reclassifications of cumulative profits or losses within shareholders' equity were carried out during the year under report.

Financial liabilities cannot be allocated to the measurement category financial assets measured at fair value without effect on income.

Please refer to 'Risk Provisioning in the Lending and Securities Business' (Note 8) for information on the regulations on impairment of the financial assets measured at fair value without effect on income.

Measurement at fair value through profit or loss
All other financial instruments shall be measured at fair value through profit or loss. This concerns the financial assets that are allocated to a business model other than the "hold" and "hold and sell" models or whose contractual cash flows do not exclusively represent principal and interest on the outstanding capital at set times. We report as trading assets or trading liabilities all non-derivative financial instruments that were purchased or entered into with the intention of selling them or repurchasing them in the short term, or are part of a portfolio of clearly and jointly managed financial instruments at initial application, in which short-term profit taking has been demonstrated in the recent past. Furthermore, we allocate to this measurement category all derivatives, including separable, embedded derivatives, as well as all non-derivative financial assets that are not allocated to the trading assets but do not meet the cash flow criterion. We show these holdings in the balance sheet as positive or negative market values from derivative financial instruments or as financial assets mandatorily measured at fair value through profit or loss.

Subsequent measurement of financial instruments in this category 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. These are mainly present value methods and option price models. We have cooperated closely with the HSBC Group 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, the unrealised measurement results and the trade-related net interest income are reported under net trading income, provided the earnings effects result from financial instruments held for trading or from derivatives. Earnings effects from non-derivative financial instruments that are measured at fair value through profit or loss but not assigned to the trading activities, are reported as regards the current rate of return in net interest income and as regards the other earnings components in net profit from other financial assets mandatorily measured at fair value through profit or loss.

We continue not to avail of the option of irrevocably designating financial instruments at the time of recognition in the category of financial instruments measured at fair value through profit or loss (fair value option).

Reclassification

Financial liabilities may not be reclassified. Financial assets must be reclassified if the business model in which the financial assets are held changes. No financial assets were reclassified during the period under report.

Financial guarantees and loan commitments

Financial guarantees are agreements whereby the guarantor is obliged to make certain payments that compensate the guarantee taker for any loss incurred 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 obligation and the present value of the premium correspond to one another.

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

The Group does not know in detail to what extent the financial guarantees and loan commitments will be called upon. Financial guarantees and loan commitments are subject to the impairment provisions of IFRS 9 as described below in 'Risk Provisioning in the Lending and Securities Business' (Note 8).

Financial instruments under IAS 39 (until 31 December 2017)

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	Cash reserve	Loans and receivables
	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
	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
	Positive / negative market values from derivative financial instruments	Held-for-trading
	Derivatives in hedging relationships	

We 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 application 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 at the time of recognition (fair value option). We did not exercise the fair value option, so that the corresponding sub-category is not filled at present.

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

As a rule, subsequent measurement is at fair value. 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.

Financial assets held to maturity
No financial instruments were assigned to the 'held-to-maturity' category.

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.

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 an impairment 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 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 in the valuation reserve for financial instruments without effect on income.

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.

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

Financial guarantees and loan commitments
Financial guarantees are agreements whereby the guarantor is obliged to make certain payments that compensate the guarantee taker for any loss incurred 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 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, loans and issued registered bonds, the Bank applies the provisions for the reporting of hedge accounting. We exercise the option under IFRS 9 and continue to use the provisions pursuant to IAS 39 for hedge accounting. The fair value of the fixed-income financial instruments 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 securities in the non-trading portfolio, 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 are adequate for the retrospective effectiveness test.

8 Risk Provisioning in the Lending and Securities Business

Impairment and net loan impairment and other credit risk provisions pursuant to IFRS 9 (since 1 January 2018)

Financial assets (debt instruments) recognised at amortised cost or at fair value without effect on the income statement, as well as financial guarantees and loan commitments, are impacted by the regulations on impairments under IFRS 9. This also includes trade receivables, lease receivables and contract receivables pursuant to IFTS 15. Pursuant to the provisions of IFRS 9, the risk provisioning requirements are calculated and recognised on the basis of expected credit losses (expected credit loss model).

The reporting of impairments under IFRS 9 is based on a three-stage model Accordingly, net loan impairment and other credit risk provisions up to the amount of the 12-month expected credit losses (Level 1) is recognised for financial instruments whose credit risk has not increased significantly from the time of recognition to the balance sheet date and whose credit-worthiness is not already impaired at acquisition or provision. Recognition of net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial application (Level 2) and for credit-impaired assets on the balance sheet date (Level 3). Purchased or originated credit impaired (POCI) financial assets are recognised at initial application, after deduction of the lifetime expected credit losses.

For accounting purposes, we define a default in accordance with the regulatory definition of default under the Capital Requirements Regulation (CRR). Accordingly, an event of default and hence an impairment within the meaning of the accounting standards occurs, where it is unlikely that the borrower can meet its obligations in full, without having to resort to measures such as the realisation of collateral, or if one of the borrower's substantial receivables is more than 90 days past due.

Indications of the unrecoverability and hence the impairment of financial assets include in particular,

- substantial financial difficulties on the part of the debtor,
- a breach of contract, such as default or arrears in respect of interest and redemption payments,
- increased probability that the borrower will enter bankruptcy or other restructuring procedure,
- the disappearance of an active market for these financial asset because of financial difficulties or
- concessions that the lender makes to the borrower for economic or legal reasons in conjunction with the borrower's financial difficulties that the lender would otherwise not consider.

In order to assess if a financial asset is at an increased risk of default risk compared with at recognition, in addition to financial assets more than 30 days overdue and inclusion in the list of exposures subject to closer monitoring (watch-worry list), we use the criteria of the relative change in the expected probabilities of default since initial application of the respective financial instrument.

We do not exercise the option to apply simplified procedures for the calculation and recognition of the net loan impairment provision for financial instruments (low credit risk exemption) and for trade receivables, lease receivables and contract receivables pursuant to IFTS 15.

Write downs/provisions 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 default or impaired are classified in CRR 9 and 10. Net loan impairment and other credit risk provisions are generally calculated on a book value basis as the product from the book values or credit equivalent amount, the probability that the exposure default within one year (Level 1) or within the residual term (Levels 2 and 3) and the individual loss ratio taking into account appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment. The borrower's country of domicile is also relevant. Net loan impairment provision thus created covers the credit loss expected within one year or within the residual term.

Net loan impairment provision is offset against receivables on the assets side on the one hand and shown as provisions for risks from the off-balance sheet lending business on the liabilities side on the other. Interest and impairments of Level s 1 and 2 financial assets are recognised independent of one another. On the other hand, interest income from impaired financial assets (Level 3) are recognised only using the original effective interest rate on the gross book value of the respective financial asset, reduced by the net loan impairment provision. Purchased or originated credit impaired (POCI) financial assets are recognised at initial application deducting the lifetime expected credit losses.

We also calculate and recognise net loan impairment provision for financial assets recognised at fair value without effect on the income statement, depending on the allocation to the levels under IFRS 9. Risk classification is also made on the basis of a uniform, Group-wide 23-stage internal rating scale. Unlike the financial assets recognised at amortised cost, net loan impairment provision does not reduce the book value of the financial instrument. The respective financial asset continues to be recognised at fair value. Net loan loss impairment is recognised instead as an expense as an adjustment to the valuation reserves reported for this financial instrument within shareholders' equity.

With regard to the management of counterparty default risks, as well as the methodical, process and systems-based implementation of the impairment requirements under IFRS 9, we refer to the information on counterparty default risk in the Risk Report of the Group Management Report.

We write off defaulted financial assets in full or in part against existing net loan loss impairment and, if necessary, as a direct write-off against the income statement, if every effort to enforce our claims have failed and there is no longer any realistic prospect of repayment of the outstanding loans. This shall be assumed if, after exhausting all the appropriate measures for repayment of the outstanding loans, not further efforts to this end will be taken and further realisable collateral is no longer available.

Impairment and net loan impairment and other credit risk provisions pursuant to IAS 39 (since 31 December 2017)

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 collective impairments/provisions on the other.

Individually assessed impairments/provisions in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower 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 assigned to 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 collateral 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 repayment obligations from the liquidity inflows are generally reported under the balance sheet items 'deposits by banks' or 'customer accounts'.

Similarly, the repayment obligations arising from the outflow of liquidity from reverse repos is reported under the balance sheet item 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. Rights and obligations arising from 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 balance sheet item 'property, plant and equipment' 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 life.

	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 non-scheduled write-downs. An impairment loss is recognised in the amount in which the book value 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. This assessment comprises the review whether there is evidence that suggests an impairment of the intangible asset. Internal and external sources of information are drawn on for this purpose. If there is evidence on an impairment, for example a technical obsolescence of the intangible asset or changed utilisation planning that suggests a reduced value compared with the book value or use of the software, a recoverable amount is determined from the intangible asset. A write-down is recognised in the amount by which the recoverable amount falls short of the book value of the intangible asset. If the reasons for an impairment no longer exist, a write-up shall be made for software.

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 book value of the goodwill. A recoverable amount that is less than the book value 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 4.8 % (2017:4.3 %) 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 tenants 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 2018, 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 % (2017: 0.00 %)

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 and in the statement of comprehensive income 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. We refer to the Note "Provisions".

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 was graduated according to different blocking periods (one, three and five years) and allowed staff to save up to the equivalent of GBP 250 per month. The last five-year share option scheme expired in 2017. 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 immediately as an expense (so-called acceleration of vesting).

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 seqq. 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 (Bundesarbeitsgericht – 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, as well as from other financial assets mandatorily measured at fair value through profit or loss. Interest expense includes in particular expenses arising from deposits by banks and customer accounts, as well as 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 generally recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement. The only exceptions to this are capital repayments on equity instruments measured at fair value without effect on income, which are recognised with no effect on the income statement.

Risk provisioning in the lending and securities business comprises the earnings effects from the application of the impairment provisions of IFRS 9. These also include expenses and income from the creation or reversal of provisions for off-balance sheet commitments in the lending business, any direct write-offs and recovery payments from previously written-off loans and advances.

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. Under the provisions of IFRS 9, revenue from contracts with customers is recognised in the current reporting period. In line with the five-stage model that is decisive for the recognition of revenues, we allocate corresponding, pro rata if necessary (individual) transaction prices to our contracts with customers or the individual performance obligations contained therein and collect the associated revenues on fulfilment of our respective performance obligation(s) through profit or loss. Transaction prices are determined by the consideration a company expects to receive from the customer for the transfer of goods or provision of services. The service performed is accompanied by the invoicing and generally by a prompt due date of payment. Generally speaking, subsequent chargebacks or refunds are not planned. We recognise period-based, revenue collected on a pro rata basis from contracts with customers at a point in time, if the customer is provided with the service over a period of time and has also availed evenly of the benefits. Because of the period-related parallelism of the provision of services and economic life, we find this to be appropriate.

We recognise fees relating to services that we provide in full already at the start of a transaction but do not receive until at a later stage over a determined period in the future on a present value basis as a direct result of the provision of services in fee income. Pursuant to IFRS 15, the outstanding fee payments are receivables, as the payments depend solely on the passage of time.

If the Group acts assumes the role of agent in the provision of services, the service-related fee is passed on to third parties outside the Group, without reporting the corresponding income and expenses in the consolidated income statement. This concerns fees for portfolio management services provided by third parties outside the Group for special assets, where the capital management is assumed by a group company under the German Investment Code (Kapitalanlagegesetzbuch – KAGB).

Pursuant to IFTS 15.B35 et seqq, if the Group operates independently (principal) in providing the customer with a service or as an intermediary (agent), we assess if our Group controls the service before it is transferred to the customer. The Group operates as an agent, for example, if it does not have primary responsibility for providing the service.

All realised and unrealised income from financial assets held for trading, including the interest and dividend income attributable to trading activities, is recognised in net trading income. This also includes the hedge result and the result from banking book derivatives.

Income from the valuation and disposal of non-derivative financial instruments that are measured at fair value through profit or loss but not assigned to the trading activities, are reported in the current reporting period in net profit from other financial assets mandatorily measured at fair value through profit or loss.

Following the initial application of IFRS 9, we recognise gains and losses from the disposal of assets measured at amortised cost in the item of the same name within the income statement.

Income from financial assets includes income from the disposal of debt instruments measured up to then at fair value with no effect on income.

Before the initial application of IFRS 15 on January 2018, the collection of such revenues were based on other IFRS provisions and interpretations, in particular on IAS 18. According to these provisions, fee income and expenses were recognised in income at the time the service was rendered. With regard to the collection and reporting of expenses and income from financial instruments, the provisions of IAS were decisive in the previous year. Reference is made to the explanations in the Notes "Financial Instruments" and "Change in Accounting Policies".

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 2017 financial year, except with regard to the following:

Accounting standard IFRS 9 deals with the recognition and measurement of financial instruments and replaces IAS 39 with effect from 1 January 2018. With this new standard, new provisions for the classification and measurement of financial instruments, the reporting of expected counterparty default risks (impairment) and hedge accounting. Under the provisions of IFRS 9, we apply this standard at initial application, i.e.1 January 2018. We will exercise the option to refrain from restating the reference period and present the effects from the initial application of IFRS 9 separately instead.

Accounting standard IFRS 15 states how and when the revenue from contracts with customers is recognised. IFRS 15 replaces several other IFRS provisions and interpretations that had regulated the recognition of revenue and is an individual, principles-based five-stage model that is applicable to all customer agreements.

Under the provisions of IFRS 15, we apply this standard at the time of initial recognition, i.e. 1 January 2018. We exercise the option to refrain from restating the reference period.

Impact of the initial application of IFRS 9 and IFRS 15
The initial application of the new provisions as at 1 January 2018 led to a €10.5million increase of HSBC Trinkaus & Burkhardt group's shareholders' equity. This is largely attributable to the decline of €13.1million in net loan impairment provision due to the change in the impairment provisions, taking into account the related decline of €4.1million in deferred taxation.

The initial application of the new IFRS 15 provisions on the recognition of revenue from contracts with customers not have any material impact on the HSBC Trinkaus & Burkhardt Group, as the as the remuneration from customer agreements is associated in many divisions with the provision of services. In the divisions in which the services performed and the remuneration (where appropriate, also only in relation to partial components of the service performed or the remuneration) vary, income was recognised (pro rata if necessary) in line with the service performed already under the previous provisions.

The effects of the initial application of IFRS 9 on 1 January 2018 are set out in detail below.

With regard to the classification and measurement of financial instruments, the traditional lending business in the Group is recognised completely at amortised cost ("hold" business model) even under IFRS 9. The financial instruments previously allocated to the available-for-sale category under IAS 39 have been largely allocated to the "hold and sell" business model and continue to be recognised in the balance sheet item 'financial assets'. Some of the financial instruments previously categorised under available-for-sale do not meet the requirements for recognising changes to fair value with no effect on income, so that they are now measured at fair value through profit or loss under IFRS 9. We report these financial instruments in the balance sheet item 'other financial assets mandatorily measured at fair value through profit or loss'. IFRS 9 does not lead to any changes to financial instruments to be measured at fair value through profit or loss that previously reported under IAS 39, as these financial instruments are allocated of other business models and/or the responsive financial instruments does not meet the cash flow criteria pursuant to IFRS 9. We exercise the option under IFRS 9 to recognise at fair value with no effect on income selected equity instruments with a fair value of €24.4million at the time of the initial application of IFRS 9. The introduction of IFRS 9 did not have any material impact on the recognition of financial liabilities of the HSBC Trinkaus & Burkhardt Group. We continue not to exercise the option to designate financial assets and financial liabilities at fair value through profit or loss.

The initial application of the impairment provisions under IFRS 9 led to an overall reduction of €13.1million in net loan impairment and other credit risk provisions in the Group (before deduction of deferred taxes). The impact of the application of these provisions on the Group, including the explanation on this effect resulting from initial application, is portrayed in the section 'Counterparty default risks' of the Risk Report in the consolidated financial statements.

The new provisions for hedge accounting under IFRS 9 do not impact on the Group, as we have exercised the option under IFRS 9 and continue to use the IAS 39 provisions for hedge accounting. At the date of initial application of IFRS 9, the existing hedge accounting continued to be applied.

In the course of the initial application of IFRS 9, we adjusted the balance sheet structure and the income statement to the changed accounting standards for financial instruments. This impacts accordingly on the presentation in the Notes and in the Management Report. Given that the reference period was not restated retroactively under the transitional arrangements pursuant to IFRS 9, the financial instruments are recognised in the current reporting period under the provisions of IFRS 9 in these consolidated financial statements, while the financial instruments for the reference period are recognised pursuant to IAS 39.

The impact of the initial application of IFRS 9 on the Consolidated Balance Sheet at the time of the transition from IAS 39 to IFRS 9 are presented in the following tables:

(a) Those financial instruments previously categorised under available-for-sale under IAS 39, that do not meet the requirements for recognising changes to fair value with no effect on income, are now reported under IFRS 9 in the new balance sheet item 'other financial assets mandatorily measured at fair value through profit or loss' (€264.5million). The valuation reserves of €11.1million shown as a separate sub-item in shareholders' equity attributable to these financial instruments under IAS 39, were reallocated to retained earnings. In addition, retained earnings of €2.5million were reclassified in the valuation reserves for debt instruments measured at fair value with no effect on income for the purpose of depicting deferred taxes.

Assets in €m	**Reporting under IAS 39**	**Reporting under IFRS 9**	**Notes**	**Book values under IAS 39 As at 31.12.2017**	**Reclassifications**	**Revaluations**	**Book values under IFRS 9 As at 01.01.2018**
Cash reserve	LaR	AC		3,679.3		0.0	3,679.3
Loans and advances to banks	LaR	ac	(c)	858.0		0.2	858.2
Loans and advances to customers	LaR	AC	(b) (c)	9,348.9	–2.9	7.1	9,353.1
Trading assets	HfT	HfT		3,702.1			3,702.1
Positive market values from derivative financial instruments	HfT	HfT		1,420.8			1,420.8
Other financial assets mandatorily measured at fair value through profit or loss	n/a	mFVPL	(a)	n/a	264.5		264.5
Financial assets	AfS	FVOCImR/ FVOCIoR	(a) (b)	4,874.2	–260.9	0.5	4,613.8
Property, plant and equipment	n/a	n/a		111.4			111.4
Intangible assets	n/a	n/a		29.6			29.6
Taxation recoverable	n/a	n/a	(c)	64.9		–4.2	60.7
of which current				7.7			7.7
of which deferred			(c)	57.2		–4.2	53.0
Other assets	n/a	n/a		189.7		0.0	189.7
Total assets				**24,278.9**	**0.7**	**3.6**	**24,283.2**

Liabilities in €m	Reporting under IAS 39	Reporting under IFRS 9	Notes	Book values under IAS 39 As at 31.12.2017	Reclassifications	Revaluations	Book values under IFRS 9 As at 01.01.2018
Deposits by banks	OL	AC		2,916.4			2,916.4
Customer accounts	OL	AC		14,591.7			14,591.7
Trading liabilities	HfT	HfT		2,365.2			2,365.2
Negative market values from derivative financial instruments	HfT	HfT		1,248.1			1,248.1
Provisions	n/a	n/a	(c)	177.1		–6.2	170.9
Taxation	n/a	n/a		41.9			41.9
of which current				41.9			41.9
of which deferred				0.0			0.0
Other liabilities	n/a	n/a		246.8			246.8
Subordinated capital	OL	AC		395.3			395.3
Shareholders' equity	n/a	n/a	(a) to (d)	2,296.4	0.7	9.8	2,306.9
Share capital				91.4			91.4
Capital reserves				720.9			720.9
Additional Tier 1 capital				235.0			235.0
Retained earnings			(a) (c) (d)	1,257.5	8.6	9.0	1,275.1
Valuation reserve for financial instruments (IAS 39)				79.2	–79.2		n/a
Valuation reserve for debt instruments at fair value with no effect on income (IFRS 9)			(a) to (d)	n/a	64.0	0.8	64.8
Valuation reserve for equity instruments at fair value with no effect on income (IFRS 9)			(d)	n/a	7.3		7.3
Valuation reserve for the remeasurement of the net pension obligation				–89.1			–89.1
Valuation reserve from currency conversion				1.5			1.5
Total equity and liabilities				**24,278.9**	**0.7**	**3.6**	**24,283.2**

(b) A financial instrument with a book value before net loan impairment and other credit risk provisions of €3.6million (net book value of €2.9million) that was previously reported in loans and advances to customers, was reclassified in financial assets recognised at fair value without effect on the income statement The net loan impairment and other credit risk provisions of €0.7million at initial application were transferred to the valuation reserves for financial instruments measured at fair value without effect on the income statement. Furthermore, the fair value measurement of these financial instruments at initial application led to a further increase of €0.5milion in these valuation reserves.

(c) The initial application of the impairment provisions under IFRS 9 led to a reduction in the net loan impairment and other credit risk provisions and thus to an increase of €7.1milllion in the balance sheet item 'loans and advances to customers', of €0.2million in 'loans and advances to banks' and to a reduction of €6.2million to the provisions. These valuation effects are accompanied by a reduction of €4.1million in deferred taxation, thus leading to a €9.4million increase in retained earnings.

In respect of the financial assets, net loan impairment and other credit risk provisions of €0.4million were recognised at the time of the initial application at the expense of retained earnings. Accordingly, this increased the valuation reserve for debt instruments measured at fair value without effect on the income statement. This valuation effect is associated with a €0.1million reduction in deferred taxation as well as the valuation reserve for debt instruments measured at fair value without effect on the income statement. Taking into account the €0.5million increase in the valuation reserve as a result of the reclassification of a customer loan in financial assets (explanations to (b)), total revaluations lead to an increase of €8.0 million in the valuation reserve for debt instruments measured at fair value without effect on the income statement.

(d) In the valuation reserves for debt instruments measured at fair value without effect on the income statement, we differentiate within shareholders' equity between the underlying types of instrument as a consequence of the introduction of IFRS 9. Accordingly, the valuation reserves are reported separately by debt and equity instruments.

The impact of the initial application of the impairment provisions under IFRS 9 at the time of the initial application in relation to net loan impairment and other credit risk provisions is shown in the following tables:

in €m	**Reporting under IAS 39**	**Reporting under IFRS 9**	**Net loan impairment and other credit risk provisions under IAS 39 and IAS 37 as at 31.12.2017**	**Reclassifications**	**Revaluations**	**Net loan impairment and other credit risk provisions under IFRS 9 As at 01.01.2018**
Cash reserve	LaR	AC	0.0	0.0	0.0	0.0
Loans and advances to banks	LaR	AC	0.3	0.0	–0.2	0.1
Loans and advances to customers	LaR	AC	44.2	–0.7	–7.1	36.4
Financial assets	AfS	FVOCImR	9.4	0.7	0.4	10.5
Provisions for off-balance sheet commitments in the lending business	n/a	n/a	18.8	0.0	–6.2	12.6
Total			**72.7**	**0.0**	**–13.1**	**59.6**

The Bank does not avail of the transition provisions pursuant to Article 473a of the Capital Requirements Regulation and does not distribute the IFTS 9 initial application effects.

Further standards and interpretations, the amended version, the application of which is mandatory in the EU since 01 January 2018, were taken into account when preparing the consolidated financial statements, and did not have any material consequences for the consolidated financial statements of HSBC Trinkaus & Burkhardt.

This concerns the amendments to IFRS 2 'Share-based payments' – classification and measurement of share-based payment transactions, the amendments to IFRS 4 – implementation of IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts', the amendments to IAS 40 'Investment property' – 'Transfers to and from investment properties', the annual improvement to IFRS (cycle 2014 – 2016) concerning the amendments to IFRS 1 'Initial application of the International Financial Reporting Standards' and IFRIC 22 'Payment of advance consideration in a foreign currency'.

(b) For future reporting periods

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

The new accounting standard IFRS 16 on lease accounting was published in January 2016. IFRS 16 is obligatory for financial years beginning on or after 01 January 2019. The new standard replaces IAS 17 and therefore the associated interpretations. According to the new rules, the lessee will in future 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 16 also includes rules on extended disclosures to the Notes and on sale-and-lease-back transactions.

The HSBC Trinkaus & Burkhardt Group is largely affected as a lessor by the new provisions for reporting leases. Due to the recognition on the balance sheet of rights to use the leased assets on the one hand and lease liabilities on the other, the initial application of the new accounting standards in the consolidated financial statements increases the balance sheet by around €60million.

Against the background of a contract already concluded on the rental of office space in Dusseldorf as of 2020, these accounting standards on 2020 are likely to lead to another mid double-digit million euro increase in the balance sheet depending on whether existing options to extend the tenancy are exercised. In future, interest expense from the lease liabilities and expenses from the write-down of usage rights will be shown separately in the income statement. Compared with previous recognition of rental and lease agreements, this leads to a reduction in administrative expenses and to lower net interest income. Furthermore, we anticipate that the new rules on the recognition of financing costs will tend to lead to comparatively higher expenses in the early phase of the term of a lease and to comparatively lower expenses in the later phase (so-called front-loading). Overall, we anticipate no material impact on the income statement . As a lessee, the Group is only marginally affected. The introduction of the new leasing standard will also result in extended disclosure obligations.

The IASB published the new accounting standard IFRS 17 'Insurance contracts' in May 2017. IFRS 17 now regulates the reporting of insurance contracts and the measurement of insurance liabilities. The new provisions replace IFRS 4 'Insurance contracts'. Against the background of possible amendments to IFRS 17, the IASB opted to defer the mandatory time of the initial application of IFRS 17 by one year – subject to a public consultation to be conducted in 2019. Subject to EU endorsement, it would be mandatory to apply IFRS 17 for business years starting on or before 1 January 2022. The impact on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

It shall be mandatory to apply the amendments to IFRS 9 'Financial instruments' – prepayment features with negative compensation – in the EU as of 1 January 2019. This will not have any material consequences for the HSBC Trinkaus & Burkhardt Group.

The amendments to further standards and interpretations outlined below are of little or no significance for the consolidated financial statements. The earliest date set by the IASB for the mandatory application of the respective new accounting rules, and the date of its adoption into EU law (EU endorsement) is stated.

IFRS standard or interpretation	Initial application	EU endorsement
Amendments to IAS 28 'Shares in associated companies and joint ventures' – long-term shares in associated companies and joint ventures	01 January 2019	08 February 2019
Amendments to IAS 19 "Employee benefits" – plan amendment, curtailment or settlement	01 January 2019	outstanding
Annual improvements to IFRS (2015–2017) with amendments to IFRS 3 'Business combinations', IFRS 11 'Joint arrangements', IAS 12 'Income taxes' and IAS 23 "'Borrowing costs'.	01 January 2019	outstanding
IFRIC 23 'Reporting of tax risk positions'	01 January 2019	23 October 2018
Amendments IFRS 3 'Business Combinations'	01 January 2020	outstanding
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors'"	01 January 2020	outstanding
Amendments to references to the framework concept in IFRS standards	01 January 2020	outstanding

19 Material Events Occurring After the Balance Sheet Date

In January 2019, HSBC Trinkaus & Burkhardt AG raised further additional Tier 1 capital (AT1) in the form of a deeply subordinated bearer bond with unlimited maturity with a total notional amount of €200.0million. The bond cannot be called by the issuer until 1 January 2025 and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.04 %.

Notes to the Consolidated Balance Sheet

20 Cash Reserves

in €m	31.12.2018	31.12.2017
Cash in hand	1.2	1.5
Balances held with central banks	3,749.3	3,677.8
Total	**3,750.5**	**3,679.3**

21 Loans and Advances to Banks

in €m	31.12.2018	31.12.2017
Current accounts	916.3	525.7
Money market transactions	64.1	143.6
of which overnight money	0.0	0.0
of which term deposits	64.1	143.6
Other receivables	214.9	177.2
Collateral items in the derivatives trading business	265.4	11.8
Total (before net loan impairment provision)	**1,460.7**	**858.3**
Net loan impairment provision	0.0	0.3
Total (net)	**1,460.7**	**858.0**

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

22 Loans and Advances to Customers

in €m	31.12.2018	31.12.2017
Current accounts	1,800.8	1,575.0
Money market transactions	1,030.6	957.1
of which overnight money	69.7	23.9
of which term deposits	960.9	933.2
Loan accounts	7,143.2	6,060.2
Other receivables	770.5	627.7
Collateral items in the derivatives trading business	35.4	173.1
Total (before net loan impairment provision)	**10,780.5**	**9,393.1**
Net loan impairment provision	30.7	44.2
Total (net)	**10,749.8**	**9,348.9**

Loans and advances to customers are reported after deduction of the net loan impairment provision. Other receivables include receivables from contracts with customers (IFRS 15) in the amount of €90.7million (01.01.2018: €89.0million) There were no significant impairment charges in relation to these receivables as at the reporting date of 31.12.2018.

23 Trading Assets

in €m	31.12.2018	31.12.2017
Bonds and other fixed-income securities	1,206.5	1,241.5
of which:		
public-sector issuers	1,017.6	1,157.6
other issuers	188.8	83.9
of which:		
listed	1,206.5	1,241.5
unlisted	0.0	0.0
Equities and other non-fixed-income securities	706.6	759.1
of which:		
listed	695.9	743.0
unlisted	10.7	16.1
Tradable receivables	963.6	1,701.5
Total	**2,876.7**	**3,702.1**

Tradable receivables are recognised mainly as promissory note loans and purchased receivables.

24 Positive Market Values from Derivative Financial Instruments

in €m	31.12.2018	31.12.2017
Positive market values of derivatives	1,265.5	1,418.0
of which OTC derivatives	1,016.8	1,254.3
of which exchange-traded derivatives	248.7	163.7
Derivatives in hedging relationships	0.0	2.7
Derivatives held in the banking book	0.1	0.1
Total	**1,265.6**	**1,420.8**

25 Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

in €m	31.12.2018	31.12.2017
Bonds and other fixed-income securities	88.0	n/a
of which:		
public-sector issuers	0.0	n/a
other issuers	88.0	n/a
of which:		
listed	88.0	n/a
unlisted	0.0	n/a
Hybrid financial instruments	60.0	n/a
Investment certificates	21.3	n/a
Equities and other non-fixed-income securities	8.2	n/a
of which:		
listed	8.2	n/a
unlisted	0.0	n/a
Promissory note loans	0.0	n/a
Investments	14.7	n/a
Total	**192.2**	**n/a**

Pursuant to IFRS 9, we understand financial assets mandatorily measured at fair value through profit or loss as all financial instruments of the "hold" and "hold and sell" business models, whose contractual cash flows do not exclusively represent principal and interest on the outstanding capital at set times. In the previous year, these were allocated to the "available-for-sale" category under the regulations of IAS 39.

26 Finanzanlagen

in €m	31.12.2018*	31.12.2017
Bonds and other fixed-income securities	3,418.1	4,670.6
of which:		
public-sector issuers	1,816.1	2,406.4
other issuers	1,602.0	2,264.2
of which:		
listed	3,353.8	4,606.2
unlisted	64.3	64.4
Investment certificates	n/a	33.5
Promissory note loans	90.3	135.6
Investments	23.7	34.5
Total	**3,532.1**	**4,874.2**

* The figures as at 31.12.2018 were prepared under IFRS 9 and IFRS 15. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the consolidated financial statements.

We understand financial assets as all financial instruments of the "hold and sell" business model pursuant to IFRS 9, their contractual cash flows, excluding principal and interest on the outstanding capital at set times, and investments. Bonds and other fixed-income securities, as well as promissory note loans, are measured at fair value without effect on the income statement with recycling. Investments are measured at fair value without effect on the income statement without recycling.

In the previous year, these financial instruments were allocated to the "available-for-sale category under the regulations of IAS 39.

27 Investment Overview

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2018	109.7	123.9	233.6	122.7
Additions	0.2	21.1	21.3	44.5
Disposals	0.0	6.1	6.1	0.5
Acquisition costs as at 31.12.2018	109.9	138.9	248.8	166.7
Depreciation as at 01.01.2018	40.5	81.7	122.2	93.1
Scheduled depreciation	1.7	14.1	15.8	4.4
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	0.0	4.7	4.7	0.0
Depreciation as at 31.12.2018	42.2	91.1	133.3	97.5
Carrying value as at 31.12.2018	**67.7**	**47.8**	**115.5**	**69.2**
Carrying value as at 31.12.2017	**69.2**	**42.2**	**111.4**	**29.6**

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2017	104.1	114.2	218.3	107.1
Additions	5.6	19.8	25.4	25.0
Disposals	0.0	10.1	10.1	9.4
Acquisition costs as at 31.12.2017	109.7	123.9	233.6	122.7
Depreciation as at 01.01.2017	38.8	74.2	113.0	94.6
Scheduled depreciation	1.7	12.4	14.1	3.1
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	0.0	4.9	4.9	4.6
Depreciation as at 31.12.2017	40.5	81.7	122.2	93.1
Book value as at 31.12.2017	**69.2**	**42.2**	**111.4**	**29.6**
Carrying value as at 31.12.2016	**65.3**	**40.0**	**105.3**	**12.5**

Intangible assets include goodwill of €4.4million (2017: €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 €64.8million (2017: €25.2million). 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.

28 Taxation Recoverable

in €m	31.12.2018	31.12.2017
Current taxation recoverable	23.7	7.7
Deferred taxation recoverable	68.2	57.2
Total	**91.9**	**64.9**

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	31.12.2018	31.12.2017	Change
	As shown in the balance sheet	As shown in the balance sheet	
Trading portfolio and market values of the derivative financial instruments*	–1.4	–1.7	0.3
Intangible assets	0.0	0.0	0.0
Net loan impairment and other credit risk provisions	5.9	17.3	–11.4
Pensions	24.6	24.5	0.1
Other financial assets mandatorily measured at fair value through profit or loss	6.6	n/a	n/a
Financial assets	3.3	7.9	–4.6
Buildings	–7.8	–7.8	0.0
Provisions	12.2	16.5	–4.3
Recognised in the income statement	**43.4**	**56.7**	**–13.3**
Financial instruments	–20.3	–39.4	19.1
Foreign currency translation	0.0	0.0	0.0
Pensions	45.1	39.9	5.2
Without effect on income	**24.8**	**0.5**	**24.3**
Deferred taxes	68.2	57.2	11.0
of which taxation recoverable	68.2	57.2	11.0
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 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 €44.1million (2017: €48.7million), with international entities accounting for €31.7million (2017: €36.3million) 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.

29 Other Assets

Other assets of €179.9million (2017: €189.7million) include one property in a consolidated closed-end real estate fund pursuant to IAS 2 with a book value totalling €130.3million (2017: €137.8million). The decline was as a result of exchange rate effects.

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 seqq. 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 book value 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 agreements) of €0.2million (2017: €0.2million) and other taxes of €3.9million (2017: €4.0million).

Other assets are primarily assigned to non-current assets.

30 Subordinated Assets

in €m	31.12.2018	31.12.2017
Bonds and other fixed-income securities	301.4	326.9
Profit-participation certificates	2.3	2.2
Total	**303.7**	**329.1**

31 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 IFRS 9 (previous year: 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	31.12.2018		31.12.2017	
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	93.3	78.9	100.0	52.6
Total	**93.3**	**78.9**	**100.0**	**52.6**

The following overview includes the financial instruments that cannot be reported in accordance with IFRS 9 (previous year: IAS 39), as well as the associated receivables. There is no on-balance sheet netting:

in €m	31.12.2018		31.12.2017	
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	–	–	22.7	22.9
of which may be sold or pledged	–	–	22.7	–
of which are already sold or pledged	–	–	–	–
Securities lending transactions	44.1	1.2	71.0	1.1
of which may be sold or pledged	30.1	–	66.4	–
of which are already sold or pledged	14.0	–	4.6	–
Total	**44.1**	**1.2**	**93.7**	**24.0**

32 Deposits by Banks

in €m	31.12.2018	31.12.2017
Current accounts	401.8	371.7
Money market transactions	1,974.6	1,635.8
of which overnight money	0.0	0.0
of which term deposits	1,974.6	1,635.8
Other liabilities	785.8	597.3
Collateral items in the derivatives trading business	156.7	311.6
Total	**3,318.9**	**2,916.4**
of which domestic banks	2,359.1	2,263.2
of which foreign banks	959.8	653.2

As at 31 December 2018, deposits by banks secured by charges on real property amounted to €107.8million (2017: €114.2million).

33 Customer Accounts

in €m	31.12.2018	31.12.2017
Current accounts	12,871.9	12,222.9
Money market transactions	1,560.4	1,995.0
of which overnight money	383.7	724.5
of which term deposits	1,176.7	1,270.5
Savings deposits	1.7	1.7
Other liabilities	326.3	330.4
Collateral items in the derivatives trading business	101.1	41.7
Total	**14,861.4**	**14,591.7**
of which domestic customers	13,757.2	13,584.6
of which foreign customers	1,104.2	1,007.1

34 Trading Liabilities

in €m	31.12.2018	31.12.2017
Promissory note loans	290.8	288.2
Bonds	538.6	751.8
Certificates and warrants	987.6	1,280.9
Delivery obligations arising from securities sold short	8.9	44.3
Total	**1,825.9**	**2,365.2**

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 IFRS 9 (previous year: IAS 39), and are measured at their fair value.

35 Negative Market Values from Derivative Financial Instruments

in €m	31.12.2018	31.12.2017
Negative market values of derivatives	955.8	1,200.6
of which OTC derivatives	756.9	1,011.3
of which exchange-traded derivatives	198.9	189.3
Derivatives in hedging relationships	22.8	47.2
Derivatives held in the banking book	0.1	0.3
Total	**978.7**	**1,248.1**

36 Provisions

Provisions are broken down as follows:

in €m	31.12.2018	31.12.2017
Provisions for pensions and similar obligations	98.2	72.8
Provisions for off-balance sheet commitments in the lending business	5.9	18.8
Other provisions	63.4	85.5
Total	**167.5**	**177.1**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in 2018:

in €m	Pensions and similar obligations	Partial retirement	Statutory retirement age	Other	Total
As at 01.01	**63.7**	**0.9**	**3.7**	**4.5**	**72.8**
Change in the plan assets	0.5	0.0	0.0	0.0	0.5
Pensions paid	−9.5	−0.8	0.0	0.0	−10.3
Additions (incl. projected income)	16.5	1.3	4.9	0.3	23.0
Transfers / other	0.1	−0.1	−5.1	0.5	−4.6
Changes recognised directly in equity arising from the remeasurement of the net pension obligation	16.8	0.0	0.0	0.0	16.8
As at 31.12	**88.1**	**1.3**	**3.5**	**5.3**	**98.2**

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

in €m	2018	2017
Expenses for defined benefit plans	23.0	18.2
of which current service costs	18.8	16.7
of which interest expense	7.4	6.9
of which estimated income from the plan assets	−3.2	−5.4
of which gains from plan settlements	0.0	0.0
Expenses for defined contribution plans	7.2	7.1
Other expenses for retirement provisions	0.5	0.5
Total	**30.7**	**25.8**

We have also included €17.1million (2017: €16.1million) 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 for future components in line with a changed interest rate environment. Each contribution period is ten years after the end of the reporting period. The Bank may at any time determine if and how to extent 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 guarantee interest rate. This pension fund consists of the vested benefits of former employees but no current pension benefits.

Two further pension plans exist for employees who joined the company before 31 December 2000 and former employees of the Hamburg branch; these were closed for new policies. Beneficiaries of these regulations receive benefits in the form of life-long old-age, invalidity and survivors' pensions.

These are final salary schemes dependent on the length of service with a divided benefit formula. 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 (IAS 19.46). 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-base individual commitments to life-long regular benefits exist for former and active Management Board and Executive Committee members, as well as former Managing Partners. Contribution-oriented

capital plan commitments were agreed individually for recently appointed members of the Management Board. In addition, some former Management Board and Executive Committee members, as well as Managing Partners, received a capital commitment from the deferred compensation. The guaranteed return on the contributed conversion amount is defined; the capital is paid out in instalments.

The former Management Board and Executive Committee members, and the Managing Partners or their surviving 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 and equities. It invests predominantly in the developed regions. 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 €261.6million (2017: €253.3million) during the period under report, with benefit recipients accounting for €69.2million (2017: €68.9million) thereof. The DBO of the individual commitments amounts to €74.5million (2017: €76.3million), with benefit recipients accounting for €49.0million (2017: €51.7million) thereof. The DBO of the open pension fund (in force since 1 July 2013) amounts to €3.8million (2017: €2.7million). Capital commitments account for €57.0million (2017: €52.4million).

The pension obligations are calculated in the actuarial opinion using the projected unit credit method. Besides the current mortality tables (Heubeck tables 2018 G; (2017: Heubeck tables 2005 G)), we base these annual measurements on the following parameters:

in %	31.12.2018	31.12.2017
Base rate of interest for pensions	1.81	1.84
Base rate of interest for obligations from partial retirement and early retirement regulations	0.56	0.35
Base rate of interest for obligations similar to pension obligations and anniversary obligations	1.47	1.35
Base rate of interest for LAZK	1.47	1.35
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 18.3 years (2017: 18.6 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. Willis Towers Watson refined the process for calculating interest. The development of the process takes into account, among other things, a more precise definition of the bond portfolio underlying the process and an improvement in the development of the yield curves. This is a change to an accounting-related estimation procedure within the meaning of IAS 8. Compared with the previously used estimation procedure, this change led to a three basis point lower base rate of interest in calculating the scope of the pension obligations, and hence to a €1.8milllion higher DBO.

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 31.12.2018	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	1.81 %	–1.00 percentage points	20.7 %
Base rate of interest	1.81 %	+1.00 percentage points	–15.8 %
Development of salaries	3.00 %	–0.50 percentage points	–2.5 %
Development of salaries	3.00 %	+0.50 percentage points	2.8 %
Pension increase	2.00 %	–0.25 percentage points	–2.8 %
Pension increase	2.00 %	+0.25 percentage points	2.9 %
Life expectancy	Pursuant to RT 2018 G	+1 year for a person currently aged 65	3.7 %

Measurement parameter as at 31.12.2017	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	1.84 %	–1.00 percentage points	21.0 %
Base rate of interest	1.84 %	+1.00 percentage points	–16.0 %
Development of salaries	3.00 %	–0.50 percentage points	–2.6 %
Development of salaries	3.00 %	+0.50 percentage points	2.9 %
Pension increase	2.00 %	–0.25 percentage points	–2.9 %
Pension increase	2.00 %	+0.25 percentage points	2.9 %
Life expectancy	Pursuant to RT 2005 G	+1 year for a person currently aged 65	3.7 %

Breakdown of pension obligations

in €m	2018	2017	2016	2015	2014
Non-funded pension obligations	**1.0**	**1.0**	**0.9**	**1.8**	**21.0**
Funded pension obligations					
Present value of the pension obligations	464.1	443.0	424.5	375.4	350.0
Fair value of the plan assets	367.1	371.4	352.3	332.3	300.1
Balance	**97.0**	**71.6**	**72.2**	**43.1**	**49.9**
of which plan shortfall	97.2	71.8	74.1	47.9	50.6
of which plan excess	0.2	0.2	1.9	4.8	0.7
Total pension obligations	**98.2**	**72.8**	**75.0**	**49.7**	**71.6**
Remeasurement of net pension obligations					
from plan assets (before taxes)	–0.3	16.0	9.0	3.3	0.2
from plan obligations (before taxes)	–145.4	–144.9	–149.9	–126.4	–133.5

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 €100.7million after taxes (2017: loss of €89.1million).

The losses from the remeasurement of the net pension obligations in the year under report were created mainly on the assets side.

Net debt from defined benefit obligations developed as follows:

in €m	Pension obligations	Plan assets	Net debt
As at 01.01.2017	**425.4**	**352.3**	**73.1**
Service costs	16.7		16.7
Past service cost	0.0		0.0
Gains (losses) from plan settlements	0.0		0.0
Interest expense / income	6.9	5.4	1.5
Remeasurement	−5.0	7.0	−12.0
Actual income excluding interest income		7.0	−7.0
Change in actuarial gains and losses	−5.0		−5.0
from adjustment to the obligations	−3.0		−3.0
from changes to the demographic assumptions	0.0		0.0
from changes to the financial assumptions	−2.0		−2.0
Retirement benefits paid directly by the employer	−6.1		−6.1
Retirement benefits paid from the plan assets	−4.2	−4.2	0.0
Sums paid in conjunction with plan settlements			0.0
Transfers and others	10.3	7.1	3.2
Additions to the plan assets		3.8	−3.8
Withdrawals from the plan assets		0.0	0.0
As at 31.12.2017	**444.0**	**371.4**	**72.6**
of which: pension provisions			72.8
of which: capitalised plan assets			0.2
As at 01.01.2018	**444.0**	**371.4**	**72.6**
Service costs	18.8		18.8
Past service cost	0.0		0.0
Gains (losses) from plan settlements	0.0		0.0
Interest expense / income	7.4	3.2	4.2
Remeasurement	0.5	−16.3	16.8
Actual income excluding interest income		−16.3	16.3
Change in actuarial gains and losses	0.5		0.5
from adjustment to the obligations	−3.1		−3.1
from changes to the demographic assumptions	1.8		1.8
from changes to the financial assumptions	1.8		1.8
Retirement benefits paid directly by the employer	−9.8		−9.8
Retirement benefits paid from the plan assets	−0.5	−0.5	0.0
Sums paid in conjunction with plan settlements	0.0		0.0
Transfers and others	4.7	9.3	−4.6
Additions to the plan assets			0.0
Withdrawals from the plan assets		0.0	0.0
As at 31.12.2018	**465.1**	**367.1**	**98.0**
of which: pension provisions			98.2
of which: capitalised plan assets			0.2

Distribution of pension obligations

in €m	2018	2017
Assets	304.8	282.0
of which non-forfeitable	176.0	166.9
Vested benefits of former employees	42.1	41.4
Beneficiaries	118.2	120.6
Total	**465.1**	**444.0**

Total pension obligations are attributable to partial retirement obligations of €3.5million (2017: €3.1million), to LAZK obligations of €63.8million (2017: €56.2million), to anniversary obligations of €14.0million (2017: €13.1million) and to early retirement obligations of €1.1million (2017: €0.9million).

Impact of the obligations on future cash flows

in €m	2019	2020	2021	2022	2023	2024 – 2028
Future cash flows	9.6	9.9	10.2	10.5	10.4	64.4

Breakdown of the fair value of plan assets

in €m	2018	2017
Bonds and other fixed-income securities	109.7	84.4
Equities	29.4	32.0
Discount / index certificates	33.5	21.4
Liability insurance claims from life insurance	16.1	16.8
Investment funds	124.9	157.0
Derivatives	0.0	32.9
Closed-end real estate funds	4.0	4.0
Other	49.5	22.9
Fair value of plan assets as of 31 December	**367.1**	**371.4**

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.

Other provisions

The other provisions developed as follows in 2018:

in €m	As at 01.01.2018	Utilisation	Reversals	Additions	Compounding	Transfers/ other	As at 31.12.2018
Provisions for trade payables for soft- and hardware	25.5	5.8	12.7	2.7	0.0	0.0	9.7
Provisions for expected interest on retrospective tax payments	9.9	0.0	3.6	1.7	0.1	0.0	8.1
Provisions for trade payables for goods and services	15.4	5.3	6.9	8.9	0.0	0.0	12.1
Provisions for goodwill and legal risks	11.9	2.5	0.8	1.0	0.0	0.0	9.6
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg	11.9	2.2	0.5	0.0	0.4	0.0	9.6
Provisions for restoration obligations	5.0	0.0	0.0	2.9	0.0	0.0	7.9
Provisions for archiving	2.8	0.0	0.0	0.0	0.0	0.0	2.8
Provisions for other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Miscellaneous other provisions	3.0	1.1	0.4	2.0	0.0	0.0	3.5
Total	**85.5**	**16.9**	**24.9**	**19.2**	**0.5**	**0.0**	**63.4**

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 2018.

37 Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment provision

in €m	Gross book values				Net loan impairment provision and other credit risk provisions			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**9,452.8**	**688.4**	**106.6**	**10,247.8**	**1.3**	**3.4**	**31.8**	**36.5**
(Net) transfer between the levels	−150.2	70.1	80.1	0.0	0.0	0.0	0.0	0.0
Changes relating to portfolio and credit quality	2,165.3	−186.9	22.7	2,001.1	−0.2	−1.5	3.6	1.9
Utilisation	0.0	0.0	−7.7	−7.7	0.0	0.0	−7.7	−7.7
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.2018	**11,467.9**	**571.6**	**201.7**	**12,241.2**	**1.1**	**1.9**	**27.7**	**30.7**

	Impairments		Total
in €m	Individually assessed	Collectively assessed	
As at 01.01.2017	**7.7**	**15.5**	**23.2**
Reversals	0.3	3.5	3.8
Utilisation	0.0	0.0	0.0
Additions	25.1	0.0	25.1
Currency translation effects/transfers	0.0	0.0	0.0
As at 31.12.2017	**32.5**	**12.0**	**44.5**

Net loan impairment provision for financial assets

in €m	Fair value				Net loan impairment and other credit risk provisions			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**4,524.5**	**25.2**	**39.7**	**4,589.4**	**0.2**	**0.2**	**10.1**	**10.5**
(Net) transfer between the levels	−2.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Changes relating to portfolio and credit quality	−1,041.3	0.0	−39.7	−1,081.0	0.2	0.3	−10.1	−9.6
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.2018	**3,480.7**	**27.7**	**0.0**	**3,508.4**	**0.4**	**0.5**	**0.0**	**0.9**

Provisions for off-balance sheet commitments in the lending business

Provisions for off-balance sheet commitments in the lending business developed as follows:

in €m	Nominal amount				Net loan impairment and other credit risk provisions			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 01.01.2018	**12,237.3**	**497.1**	**32.2**	**12,766.6**	**0.6**	**1.6**	**10.4**	**12.6**
(Net) transfer between the levels	–71.3	68.9	2.4	0.0	0.0	0.0	0.0	0.0
Changes relating to portfolio and credit quality	581.4	218.6	3.5	803.5	0.0	–0.8	–5.9	–6.7
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.2018	**12,747.4**	**784.6**	**38.1**	**13,570.1**	**0.6**	**0.8**	**4.5**	**5.9**

	Provisions		Total
in €m	Individually assessed	Collectively assessed	
As at 01.01.2017	**4.2**	**14.2**	**18.4**
Reversals	2.4	5.8	8.2
Utilisation	0.7	0.0	0.7
Additions	9.3	0.0	9.3
Currency translation effects / transfers	0.0	0.0	0.0
As at 31.12.2017	**10.4**	**8.4**	**18.8**

We report on the emergence and management of counterparty credit risk within the Risk Report as part of the audited consolidated financial statements. There were no significant impairment charges in relation to receivables from contracts with customers as at the reporting date of 31.12.2018.

38 Taxation

in €m	31.12.2018	31.12.2017
Current taxation	31.1	41.9
Deferred taxation	0.0	0.0
Total	**31.1**	**41.9**

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. 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.

39 Other Liabilities

in €m	31.12.2018	31.12.2017
Liabilities from other taxes	26.5	16.8
Deferred income	29.3	28.6
Other liabilities	191.2	201.4
Total	**247.0**	**246.8**

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.

40 Subordinated Capital

in €m	31.12.2018	31.12.2017
Subordinated liabilities (bonds, promissory note loans)	483.0	298.0
Participatory capital	89.0	89.0
Accrued interest on		
subordinated liabilities	4.1	4.0
participatory capital	4.4	4.3
Total	**580.5**	**395.3**

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, he 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, to 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 instrument with a fixed or perpetual maturity that do not meet the requirements of CRR concerning the recognition of T1 capital, was withdrawn.

Further details and provisions, as well as the full text of the aforementioned resolution result from the administration's proposals for resolution on agenda item no. 5 and the corresponding report by the Management Board to the Annual General Meeting of 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 €358.8million (2017: €230.5million) is used to calculate the liable capital in accordance with CRR.

For the 2018 financial year, interest payable amounts to €9.8million (2017: €10.4million) on subordinated liabilities and to €4.4million (2017: €4.6million) on participatory capital.

.

Interest and repayment of subordinated liabilities

Interest rate	Nominal amount (€m) 31.12.2018	Nominal amount (€m) 31.12.2017
4% to less than 5%	75.0	90.0
Over 5% up to 6%	58.0	58.0
Fixed rates	133.0	148.0
Variable rates	350.0	150.0
Total	**483.0**	**298.0**

Repayment	Nominal amount (€m) 31.12.2018	Nominal amount (€m) 31.12.2017
Up to 1 year	28.0	15.0
Over 1 year up to 5 years	80.0	98.0
Over 5 years	375.0	185.0
Total	**483.0**	**298.0**

41 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG share capital as at 31 December 2018 amounted to €91.4million (2017: €91.4million) and is divided into 34,088,053 (2017: 34,088,053) no-par value shares. For the 2018 financial year we propose paying total dividends of €85.2million (2017: €85.2milllion).

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. A payment of €13.3million will thus be due for the financial year 2018 (2017: €13.3million).

The changes in value (including net loan impairment and other credit risk provisions) vis-à-vis the amortised costs of the debt instruments reported in the item financial assets, after taking deferred taxes into account, are recognised in the valuation reserve for debt instruments measured at fair value without effect on the income statement (IFRS 9).

The changes in value vis-à-vis the acquisition costs of the equity instruments reported in the item financial assets, after taking deferred taxes into account, are recognised in the valuation reserve for debt instruments measured at fair value without effect on the income statement (IFRS 9).

In 2017, the results from the measurement of financial assets after taking deferred taxes into account were reported in the valuation reserve for financial instruments (IAS 39).

The difference between the value forecast at the beginning 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-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. Within the scope of the stress assessment throughout the bank in the going concern scenario, the Bank takes 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 inverted 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 and/or liquidation scenario. Because of the current political situation, we have identified growing protectionism of countries outside the EU as a possible inverse stress scenario (going concern), which could put export-oriented companies in particular under pressure and thus devalue the Bank's loan portfolio. Given that a stress test with a focus on exports outside of the EU had posed a threat to the risk-bearing capacity in the liquidity scenario only under very unrealistic assumptions, a counter stress test was examined instead for the liquidity scenario. This crisis scenario concerned in particular companies that are heavily dependent on sales within the EU as well as European banks and countries. Besides a downgrade of the creditworthiness, increased correlations and loss ratios were also modelled. The impact analysis of the inverse scenarios also takes compliance with the minimum capital ratios under Pillar I into account.

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 debt instruments at fair value without effect on income (IFRS 9)
The change in the valuation reserve for debt instruments at fair value without effect on income (IFRS 9) is as follows:

in €m	**2018***	**2017**
Net valuation reserve as at 01.01	**64.8**	**n/a**
Disposals/additions (gross)	–28.0	n/a
Market fluctuations (gross)	–27.5	n/a
Net loan impairment and other credit risk provisions (gross)	–0.8	n/a
Deferred taxes	16.7	n/a
Net valuation reserve as at 31.12	**25.2**	**n/a**

* The figures as at 31.12.2018 were prepared under IFRS 9. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the Consolidated Financial Statements.

Valuation reserve for equity instruments at fair value with no effect on income (IFRS 9)

The change in the valuation reserve for equity instruments at fair value without effect on income (IFRS 9) is as follows:

in €m	2018*	2017
Net valuation reserve as at 01.01	**7.3**	**n/a**
Disposals/additions (gross)	0.0	n/a
Market fluctuations (gross)	−0.7	n/a
Deferred taxes	0.0	n/a
Net valuation reserve as at 31.12	**6.6**	**n/a**

* The figures as at 31.12.2018 were prepared under IFRS 9. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the Consolidated Financial Statements.

Valuation reserve for financial instruments (IAS 39)

The change in the valuation reserve for financial instruments (IAS 39) over the previous year is as follows:

in €m	2017
Net valuation reserve as at 01.01.2017	**115.6**
Disposals/additions (gross)	−36.1
Market fluctuations (gross)	−3.8
Impairments (gross)	0.0
Deferred taxes	3.5
Net valuation reserve as at 31.12.2017	**79.2**

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

42 Net Interest Income

in €m	2018*	2017
Interest income**	**316.8**	**275.0**
Interest income from financial assets carried at amortised cost	**212.6**	**187.1**
Interest income from the lending business and money market transactions	212.6	187.1
Interest income from the securities business	0.0	0.0
Interest income from financial instruments recognised as liabilities	**35.9**	**31.4**
Interest income from financial assets measured at fair value through profit or loss	**35.7**	**46.1**
Interest income from the lending business and money market transactions	4.4	5.4
Interest income from the securities business	31.3	40.7
Other interest income	**25.1**	**10.4**
Interest income from other financial assets mandatorily measured at fair value through profit or loss	**7.5**	**n/a**
Interest income from the lending business and money market transactions	0.0	n/a
Interest income from the securities business	7.5	n/a
Interest expense**	**100.7**	**77.1**
Interest expense from financial liabilities carried at amortised cost	**70.4**	**49.9**
Interest expense from the deposit-taking business	56.2	34.8
Interest expense from the securities business (subordinated capital)	14.2	15.1
Interest expense from financial instruments carried as assets	**29.1**	**24.7**
Interest expense from hedge accounting	**0.6**	**0.1**
Other interest expense	**0.6**	**2.4**
Net interest income	**216.1**	**197.9**

* The figures as at 31.12.2018 were prepared under IFRS 9 and IFRS 15. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the consolidated financial statements.

** Interest from hedge accounting is reported on a net basis in line with the market standard. This results in a reduction of €21.1million each in interest income and expense in the previous year.

Net interest income amounts to €216.1million (2017: €197.9million) and has therefore increased by a total of €18.2million or 9.2 %.

Net interest income in the client lending business improved over the previous year due to higher volume, especially in the receivable finance business and to a slightly higher margin overall.

Net interest income from the deposit-taking business also improved over the previous year. We were able to pass on a large proportion of the charges from the negative interest environment in the eurozone to our institutional and corporate clients. Positive effects also arose during the financial year from above-average deposits in foreign currencies, such as US dollar. We view the continued very high level of deposits by our clients as evidence of the confidence they place in us.

Net interest income from our financial assets has fallen again. Bullet loans with comparable risk profiles while maintaining our strict rules on the asset quality could therefore only be replaced by those with significantly lower coupons in the 2018 market environment.

The markedly positive development of net interest income generated in 2018 from the Bank's interest rate and currency risk, which we report in other interest income in line with the Bank's internal management, is offset by opposing developments in the Bank's net trading income.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of €1.9million (2017: €2.4million).

43 Risk Provisioning in the Lending and Securities Business

in €m	2018	2017
Additions	11.6	34.4
Reversals	16.7	12.0
Direct write-offs	0.0	1.8
Recoveries on loans and advances previously written off	0.0	0.3
Total	**–5.1**	**23.9**

Net expenses for risk provisioning in the lending and securities business amounted to €5.1million in 2018. The impairments on defaulted exposures incurred expenses of €11.6million from the creation of net loan impairment and other credit risk provisions and income of €14.7million from the reversal of net loan impairment and other credit risk provisions. The other lending and securities exposures resulted in a €2.0million reversal of net loan impairment and other credit risk provisions affecting the income statement. By comparison, expenses for net loan impairment and other credit risk provisions under IAS 39 amounted to €23.9million in 2017.

44 Net Fee Income

in €m	2018	2017
Securities portfolio transactions	117.6	119.5
Securities transactions	83.2	124.7
Asset management	73.7	78.9
Foreign exchange trades	58.8	59.5
Capital financing	45.2	42.7
Lending	25.6	27.8
Domestic/international payments	21.8	22.4
Other services	4.8	7.4
Total	**430.7**	**482.9**

Net fee income fell by €52.2million or 10.8 % to €430.7million (2017: €482.9million).

At €83.2million, net fee income from transactions in securities and financial instruments is down significantly by €41.5million from the previous year's figure of €124.7million. Against the background of the difficult market environment, the cautious stance adopted by our customers was noticeable, especially in the business with fixed income products. In addition, the excellent results achieved in 2017 in the business with alternative investments could not be repeated.

However, the result from the securities portfolio business of €117.6million was maintained at almost the same level as in the previous year (€119.5million). In a highly competitive market environment, the portfolio growth was unable to fully offset the declining terms.

Net fee income from asset management declined by €5.2million to €73.7million (2017: €78.9million) in what continued to be a highly competitive environment.

Our fee-based business with foreign exchange declined slightly by €0.7million to €58.8million (2017: €59.5million), despite a significant increase in the traded volume.

In capital financing, we were able to match the previous year's positive result from equity- and debt-based corporate financing transactions, and increased net fee income once again by €2.5million to €45.2million (2017: €42.7million).

Net fee income from the lending business fell by €2.2million to €25.6million (2017: €27.8million).

The volume of domestic/international payments and documentary business fell slightly compared with the previous year by €0.6million to €21.8million (2017: €22.4million).

Net fee income includes income and expenses from trust activities within the meaning of IFRS 7.20 (c) (ii) of €98.8million (2017: €100.3million).

Net fee income can be broken down as follows:

31.12.2018 in €m	**PB & AM**	**CMB**	**GB & M**	**CC / Consolidation**	**Total**
Income from the securities portfolio business	5.2	0.1	231.7	0.0	237.0
Income from the securities transaction business	7.5	2.8	131.6	0.1	142.0
Income from asset management	74.3	2.4	2.4	0.0	79.1
Income from the derivatives business	6.6	14.3	44.5	0.5	65.9
Income from capital financing	0.0	4.5	43.3	0.4	48.2
Income from the lending business	4.8	22.3	4.9	–0.1	31.9
Income from domestic/international payments	0.4	15.8	8.4	0.2	24.8
Income from other services	0.2	0.8	2.5	2.6	6.1
Total	**99.0**	**63.0**	**469.3**	**3.7**	**635.0**

45 Net Trading Income

in €m	2018	2017
Equities and equity/index derivatives	54.7	52.0
Bonds and interest rate derivatives	14.2	25.3
Foreign exchange	3.5	6.0
Hedge result	0.1	–1.4
Derivatives held in the banking book	–0.2	2.0
Total	**72.3**	**83.9**

Net trading income fell by €11.6million to €72.3million (2017: €83.9million).

Income generated from trading with equities and equity/index derivatives improved on the previous year's figure by €2.7million to €54.7million (2017: €52.0million). We were once again able to generate a high volume of business in investment certificates and other trading products in the financial year.

Net trading income from bonds and interest rate derivatives amounted to €14.2million, which represents a sharp decline of €11.1million on the previous year (2017: €25.3million), due to significant spread widening at times.

Income generated from foreign exchange trading declined again in 2018 by €2.5million to €3.5 million. The mounting switching of foreign exchange trading to automated platforms continues to impact negatively on the margins.

Derivatives held in the banking book generated a net expense of €0.2million in 2018 (2017: net income of €2.0million).

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

in €m	2018	2017
Bonds and other fixed-income securities	–10.3	n/a
Hybrid financial instruments	–4.0	n/a
Investment certificates	–0.9	n/a
Equities and other non-fixed-income securities	–1.8	n/a
Investments	3.0	n/a
Total	**–14.0**	**n/a**

Net profit from other financial assets mandatorily measured at fair value through profit or loss resulted from changes in the value of financial instruments of the "hold" and "hold and sell" business models, whose contractual cash flows do not exclusively represent principal and interest on the outstanding capital at set times.

In the previous year, these financial instruments were allocated to the "available-for-sale" category under the regulations of IAS 39 and were therefore measured at fair value without effect on the income statement.

47 Gains and Losses from the Disposal of Assets Measured at Amortised Cost

No gains or losses from the disposal of assets measured at amortised cost were recorded in the year under report.

48 Administrative Expenses

in €m	2018	2017
Staff expenses	361.6	348.0
Wages and salaries	293.4	287.2
Social security costs	37.5	35.0
Expenses for retirement pensions and other employee benefits	30.7	25.8
Other administrative expenses	191.7	194.0
Depreciation of property, plant and equipment and of intangible assets	20.2	17.2
Total	**573.5**	**559.2**

We reported an increase of €14.3million or 2.6 % in administrative expenses to €573.5million (2017: €559.2million).

Due to the growth in staff numbers and general salary increases, staff expenses rose by 13.6million to €361.6million (2017: €348.0million). This development is attributable to, among other things, greater staff resources in conjunction with the expansion of our securities processing capacities and the modernisation of our IT infrastructure.

On the other hand, we succeeded in lowering other administrative expenses by €2.3million to €191.7million. Despite our investments in a modern IT infrastructure, the marked increase in expenses for the bank levy and the deposit protection scheme was more than offset by falling expenses in other cost types and the capitalisation of project expenses. Our cost discipline exercised in implementing projects and in the day-to day business is becoming increasingly important, against the background of the continued high regulatory requirements. Other administrative expenses include €45.3million (2017: €44.3million) in expenses arising from rental and lease payments.

Depreciation of property, plant and equipment and of intangible assets amounted to €20.2million, which represents a €3.0million increase on the previous year, mainly owing to increased depreciations of hard and software.

49 Income from Financial Assets

Under IFRS 9, gains from debt instruments measured at fair value without effect on the income statement are reported in net income from financial assets as of 1 January 2018. Net income from financial assets amounted to €17.8million and resulted largely from the disposal of promissory note loans and bonds. Under IAS 39, profit from the disposal of securities and equity instruments held as strategic investments of €53.9million, as well as impairments on financial assets of €0.7million were reported here in 2017. The previous year's figures have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown.

in €m	**2018**	**2017**
Bonds and other fixed-income securities	7.4	11.0
Investment certificates	0.0	2.8
Promissory note loans	10.4	0.0
Investments	0.0	39.4
Total	**17.8**	**53.2**

50 Net Other Income

in €m	**2018**	**2017**
Other operating income	25.4	30.8
Other operating expenses	9.1	14.5
Other net operating income	**16.3**	**16.3**
Other income	0.4	0.5
Other expenses	0.1	0.3
Other net income	**0.3**	**0.2**
Net other income	**16.6**	**16.5**

Other operating income came to €16.3million (2017: €16.3million) and results mainly from the rental income on our real estate. Other net income amounted to €0.3million (2017: €0.2million).

51 Tax Expenses

in €m	2018	2017
Current taxes	46.7	99.6
of which off-period	3.4	11.7
Deferred taxes from change in limited valuation differences	6.8	–21.0
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**53.5**	**78.5**

Tax expenses of €53.5million in the financial year under report fell by €25.0million from the previous year, thus reflecting the decline in results accordingly. This yields a tax rate of 31.3 % after 31.2 % the year before.

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

in €m	2018	2017
Pre-tax profit	171.1	251.3
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	53.7	78.9
Tax rate differential on income proportions subject to taxation outside of Germany	0.0	–0.1
Effect from unused losses carried forward	–1.0	–1.0
Taxes for previous years	–1.3	15.2
Corporation tax modification	2.9	–5.9
Trade tax modification	0.8	0.7
Tax-exempt income from investments	–1.2	–10.8
Other	–0.4	1.5
Reported taxation	**53.5**	**78.5**

52 Income Statement by Measurement Category

The following overview represents the expenses and income from financial instruments broken down by measurement category pursuant to IFRS 9 (2017: measurement category pursuant to IAS 39). Net trading income, net profit from other financial assets mandatorily measured at fair value through profit or loss, gains and losses from the disposal of assets measured at amortised cost, net income from financial assets and net other income are net earnings indicators.

Measurement category under IFRS 9 31.12.2018 in €m	Measurement at amortised cost		Measurement at fair value through profit or loss*	Measurement at fair value without effect on the income statement		Total
	Loans and advances to banks/ loans and advances to customers	Other liabilities / subordinated capital		(with recycling)	(without recycling)	
Net interest income						
Interest income	212.6	35.9	7.5	34.7	1.0	291.7
Interest expense	–29.1	–70.4	–0.6	0.0	0.0	–100.1
Net fee income						
Fee income	31.9	0.0	11.3	0.0	0.0	43.2
Fee expenses	–6.3	0.0	–7.8	0.0	0.0	–14.1
Net trading income	0.0	0.0	69.5	2.8	0.0	72.3
Net profit from other financial assets mandatorily measured at fair value through profit or loss	0.0	0.0	–14.0	0.0	0.0	–14.0
Gains and losses from the disposal of assets measured at amortised cost	0.0	0.0	0.0	0.0	0.0	0.0
Income from financial assets	0.0	0.0	0.0	17.8	0.0	17.8
Net other income	0.0	0.0	0.0	0.0	0.0	0.0
Risk provisioning in the lending and securities business	–1.9	0.0	0.0	0.3	0.0	–1.6
Total	**207.2**	**–34.5**	**65.9**	**55.6**	**1.0**	**295.2**

* including hedge accounting relationships

Measurement category under IAS 39 31.12.2017 in €m	Loans and receivables	Held-for-trading	Derivatives in hedging relationships	Available for sale	Other financial commitments	Other	Total
Net interest income							
Interest income*	188.6	0.0	0.0	44.4	31.6	10.4	275.0
Interest expense*	–22.6	0.0	–0.1	0.0	–52.0	–2.4	–77.1
Net fee income							
Fee income	32.3	11.6	0.0	0.0	0.0	632.9	676.8
Fee expenses	–4.5	–5.2	0.0	0.0	0.0	–184.2	–193.9
Net trading income	–0.5	94.7	27.1	–37.4	0.0	0.0	83.9
Income from financial assets	0.0	0.0	0.0	53.9	0.0	0.0	53.9
Net other income	0.0	0.0	0.0	0.0	0.0	16.5	16.5
Impairments							
Net loan impairment and other credit risk provisions	–22.9	0.0	0.0	0.0	0.0	–1.0	–23.9
Income from financial assets	0.0	0.0	0.0	–0.7	0.0	0.0	–0.7
Total	**170.4**	**101.1**	**27.0**	**60.2**	**–20.4**	**472.2**	**810.5**

* Interest from hedge accounting is reported on a net basis in line with the market standard. The prior-year figures were adjusted.

53 Earnings per Share

	2018	2017
Adjusted net income in €m	108.5	163.7
Average number of shares in circulation in million	34.1	34.1
Earnings per share in €	**3.18**	**4.80**
Undiluted earnings per share in €	**3.18**	**4.80**

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.

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €2.50 per share (2017: €2.50 per share).

Other Notes

54 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 €3,750.5million (2017: €3,679.3million) 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 €117.6million (2017: €172.8million) is the input figure for the cash flow statement. Gross cash flow of €13.3million (2017: €243.3million), 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 €65.7million in the 2018 financial year (2017: €50.4million). The sale of property, plant and equipment realised €1.8million (2017: €1.9million) for the Group. In the financial year under report, the sale and purchase of equity-linked financial investment instruments resulted in payments received of €0.6million (2017: €47.2million).

Cash flow from financing activities
Cash flow from financing activities includes the dividend of €85.2million (2017: €85.2million) for the 2017 financial year paid by HSBC Trinkaus & Burkhardt AG in the year under report. In addition to the regular distribution of dividends, a distribution of €13.3million (2017: €0.8million was made to HSBC Group to Additional Tier 1 (AT1) capital.

The following tables show the portfolio-related development of group financing.

in €m	Consolidated shareholders' equity	Subordinated capital
As at 31.12.2017	**2,296.4**	**395.3**
Adjustments resulting from the initial application of IFRS 9	10.5	0.0
As at 01.01.2018	**2,306.9**	**395.3**
Cash flow from financing activities	−98.4	171.1
Non-cash changes	64.6	14.1
Changes in basis of consolidation	0.0	0.0
Exchange rate adjustments	0.0	0.0
Other non-cash changes	64.6	14.1
As at 31.12.2018	**2,273.1**	**580.5**

in €m	Consolidated shareholders' equity	Subordinated capital
As at 31.12.2016	**2,240.0**	**437.7**
Cash flow from financing activities	−86.1	−57.3
Non-cash changes	142.5	14.9
Changes in basis of consolidation	0.0	0.0
Exchange rate adjustments	0.0	0.0
Other non-cash changes	142.5	14.9
As at 31.12.2017	**2,296.4**	**395.3**

55 Customer Groups

The segment reporting prepared by HSBC Trinkaus & Burkhardt Group in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions, and should help them gain a more differentiated picture of the economic performance of a company. The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contributions to profits and 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 Corporate Center / Consolidation (CC / 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 regulatory cost items, such as the bank levy and expenses for the auditor in the Corporate Centre segment, we also report for the first time net profit from other assets mandatorily measured at fair value through profit or loss. In addition, 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, are reported here.

Segment reporting by operating business division for 2018 and 2017 is as follows:

in €m		PB & AM	CMB	GB & M	CC / Consolidation**	Total*
Net interest income	2018	9.4	113.3	73.0	20.4	216.1
	2017	8.6	106.8	67.0	15.5	197.9
Net fee income	2018	93.6	53.0	281.9	2.2	430.7
	2017	97.8	55.6	329.5	0.0	482.9
Net trading income	2018	2.0	3.0	59.2	8.1	72.3
	2017	1.2	1.3	66.9	14.5	83.9
Other net operating income	2018	1.8	2.9	10.3	1.3	16.3
	2017	2.4	2.4	4.4	7.1	16.3
Operating revenues	2018	106.8	172.2	424.4	32.0	735.4
	2017	110.0	166.1	467.8	37.1	781.0
Risk provisioning in the lending and securities business	2018	0.0	0.8	–5.0	–0.9	–5.1
	2017	–0.4	13.0	11.5	–0.2	23.9
Administrative expenses	2018	91.4	103.7	356.8	21.6	573.5
	2017	88.4	105.5	348.5	16.8	559.2
Operating result	2018	15.4	67.7	72.6	11.3	167.0
	2017	22.0	47.6	107.8	20.5	197.9
Net profit from other assets mandatorily measured at fair value through profit or loss	2018	0.0	0.0	0.0	–14.0	–14.0
	2017	n/a	n/a	n/a	n/a	n/a
Income from financial assets	2018	2.8	4.6	11.2	–0.8	17.8
	2017	4.5	6.9	19.4	22.4	53.2
Other net income	2018	0.0	0.0	0.0	0.3	0.3
	2017	0.0	0.0	0.0	0.2	0.2
Pre-tax profit	**2018**	**18.2**	**72.3**	**83.8**	**–3.2**	**171.1**
	2017	**26.5**	**54.5**	**127.2**	**43.1**	**251.3**
Taxation	2018	5.7	22.7	26.3	–1.2	53.5
	2017	8.3	17.1	40.0	13.1	78.5
Net profit for the year	**2018**	**12.5**	**49.6**	**57.5**	**–2.0**	**117.6**
	2017	**18.2**	**37.4**	**87.2**	**30.0**	**172.8**
Change versus previous year in %		**–31.3**	**32.6**	**–34.1**	**< 100**	**–31.9**

* The figures as at 31.12.2018 were prepared under IFRS 9 and IFRS 15. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the consolidated financial statements.

** No material consolidation effects were recorded in the year under report.

Growing political risks through the escalation of the trade conflict between the US and China, Italy's budget problems and the unclear course chartered by Brexit have weakened global economic development, which has impacted in particular on Germany as an exporting nation. Furthermore, the curbing of the central banks' previously very expansive monetary policy through reduced bond purchases and further interest rate hikes in the US supported the growing concerns about rising interest rates worldwide and to further adverse affects on the future economic climate. These unfavourable expectations for the future have led to appreciable restraint being exercised among investors, following the particularly successful demand for the Bank's fixed income and equity products the year before. The Bank's earnings situation was burdened further by the persistent low interest rate policy pursued by the ECB with negative deposit rates and the continued sharp decline in the return on our liquidity holdings, the unchanged high expenses for implementing regulatory requirements and the start-up costs for the Bank's large-scale projects.

Despite these difficult internal and external conditions, the Commercial Banking segment improved its results, which documents the ongoing success of the growth strategy in the corporate banking business. However, these conditions impacted on the results of the Global Banking & Markets and Private Banking & Asset Management segments, which fell significantly short of the previous year's good levels. The Corporate Center comprises mainly the interest income in money market trading, the regulatory costs including the higher expenses for the bank levy and profit from the sale of the investment in a financial company in income from financial assets, as well as the consolidation of the reconciliation to total comprehensive income. A new addition to the Corporate Center in 2018 was the reporting of profit from other financial assets mandatorily measured at fair value through profit or loss, with most items being significantly negative as a consequence of falling market prices.

In addition to the lower creation of net loan impairment and other credit risk provisions in the current year following higher allocations in 2017, the Commercial Banking segment benefited from the increase in net interest income in the current account business, driven by volume on the lending side and by margins for current account balances. On the other hand, higher guarantee commissions in the international business were not sufficient to make up for the decline in net fee income from foreign exchange transactions and from fixed income products. Lower administrative expenses also contributed to the improvement in results.

Despite the possible reversal of net loan impairment and other credit risk provisions after the higher allocation in the previous year, the Global Banking and Markets segment was only partially successful in its efforts to escape the unfavourable conditions. The increase in net interest income was mainly as a result of the expansion of drawings on loans, especially in the factoring and international business, as well as of the volume of deposits. Higher net fee income was generated by the securities processing and custody business, as a consequence of the continuing high inflow of volume, especially of assets under custody. However, the previous year's high transaction-led revenue from the placement of alternative investment and fixed income products, and in the foreign exchange business, could not be replicated this year.

The Global Private Banking & Asset Management segment was similarly affected by the immense caution among many investors. Although the Private Banking & Asset Management segment continued to pass on the ECB's negative market interest rates to a very limited extent only to private clients, it generated higher net interest income from the successful acquisition of current account balances in US dollar and benefited from the higher volume in the lending business. Similarly higher fee income in the lending business, however, was insufficient make up for market performance-led lower advisory fees and custodial feed for private clients, as well as falling management and distribution fees in the business with mutual funds.

Employee numbers increased significantly in 2018 due to the start of the multi-annual large-scale projects for the introduction of the new core banking system and for the acquisition of a customer's securities processing business. In addition to the costs incurred here, some of which must be capitalised, continued high staff and non-staff expenses were also incurred for implementing new and compliance with existing regulatory requirements, as well as for maintaining HSBC's high level of global standards for avoiding financial criminality. By applying strict cost discipline in all of the Bank's divisions, administrative expenses rose only slightly over the previous year.

Administrative expenses are allocated to the relevant segment as much as possible, according to the principle of causation.

		PB & AM	CMB	GB & M	CC / Consolidation**	Total	Adjustments	As at the balance sheet date
Cost-efficiency ratio in %	2018	83.4	58.7	81.9	0.0	77.5	0.0	77.5
	2017	77.2	61.0	71.5	0.0	67.0	0.0	67.0
Assets* in €m	2018	492.3	5,936.5	8,949.3	5,124.1	20,502.2	3,781.9	24,284.1
	2017	446.8	5,745.3	9,519.5	5,719.3	21,430.9	2,848.0	24,278.9
Liabilities* in €m	2018	2,968.8	4,473.8	11,045.1	4,839.4	23,327.1	–1,316.1	22,011.0
	2017	2,784.3	4,461.1	10,210.0	5,222.3	22,677.7	–695.2	21,982.5
Risk items for mandatory inclusion* in €m	2018	580.8	7,092.0	6,724.1	1,653.4	16,050.3	903.0	16,953.3
	2017	591.5	6,932.8	6,048.6	1,648.4	15,221.3	–11.3	15,210.0
Attributable shareholders equity* in €m	2018	119.8	994.3	943.8	206.2	2,264.1	9.0	2,273.1
	2017	126.0	1,028.6	899.9	226.5	2,281.0	15.4	2,296.4
Employees	2018	482	587	2,001	23	3,093	0	3,093
	2017	433	563	1,866	17	2,879	0	2,879
Return on equity before taxes in %	2018	15.2	7.3	8.9	0.0	7.6	0.0	7.6
		21.0	5.3	14.1	0.0	11.8	0.0	11.8

* Annual average
** No material consolidation effects were recorded in the year under report.

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

The cost/efficiency ratio is a measure of the segments' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. Administrative expenses, which rose only slightly, together with the simultaneous decline in revenue, led to the increase of this indicator across the entire Bank in 2018. The success of the growth strategy in conjunction with the strict cost discipline is reflected in the welcome improvement in the cost/efficiency ratio in the Commercial Banking segment. Falling revenue in the adverse market environment together with growing administrative expenses led to the deterioration of the cost/income ratio in the Global Banking and Markets and Global Private Banking & Asset Management segment.

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 items for mandatory inclusion.

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.

Consistent with the Bank's strategy, which is aimed more at the ratio of revenues to risk-weighted assets, the trading portfolio in the Global Banking & Markets segment was reduced significantly. The inflow of volume from the new business also led to the rise in the number of risk items for mandatory inclusion in the Global Banking & Markets and Commercial Banking segments, while the risk assets in Global Private Banking & Asset Management declined slightly in line with the strategy.

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

in €m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2018	171.4	–0.3	0.0	171.1
	2017	248.1	3.2	0.0	251.3

Long-term segment assets amounted to €315.0million (2017: €278.4million) during the year under report and are allocated exclusively to the German region, in line with the previous year.

56 Measurement Classes

The following tables provide an overview of the measurement classes in the respective balance sheet item:

Assets as at 31.12.2018 in €m

Measurement classes pursuant to IFRS 9	Measurement at amortised cost	Measurement at fair value through profit or loss	Measurement at fair value without effect on the income statement		Total
			with recycling	without recycling	
Cash reserve	3,750.5	0.0	0.0	0.0	3,750.5
Loans and advances to banks	1,460.7	0.0	0.0	0.0	1,460.7
Loans and advances to customers*	10,749.8	0.0	0.0	0.0	10,749.8
Trading assets	0.0	2,876.7	0.0	0.0	2,876.7
Positive market values from derivative financial instruments	0.0	1,265.6	0.0	0.0	1,265.6
Other financial assets mandatorily measured at fair value through profit or loss	0.0	192.2	0.0	0.0	192.2
Financial assets	0.0	0.0	3,508.4	23.7	3,532.1
Other financial instruments	32.2	0.0	0.0	0.0	32.2
Total financial instruments	**15,993.2**	**4,334.5**	**3,508.4**	**23.7**	23,859.8

Liabilities as at 31.12.2018 in €m

Measurement classes pursuant to IFRS 9	Measurement at amortised cost	Measurement at fair value through profit or loss	Total
Deposits by banks	3,318.9	0.0	3,318.9
Customer accounts**	14,861.4	0.0	14,861.4
Trading liabilities	0.0	1,825.9	1,825.9
Negative market values from derivative financial instruments	0.0	978.7	978.7
Subordinated capital	580.5	0.0	580.5
Other financial instruments	84.2	0.3	84.5
Total financial instruments	**18,845.0**	**2,804.9**	**21,649.9**

* Loans and advances to customers include transactions with a book value of €30.1million shown within the scope of the hedge accounting.arry

** Our customers' deposits are used in part to refinance our trading divisions. Customer accounts include transactions with a book value of €39.4million shown within the scope of the hedge accounting.

Administrative expenses are allocated to the relevant segment as much as possible, according to the principle of causation.

Assets as at 31.12.2017 in €m

Measurement class	**At amortised cost**	**At fair value**		**Total**
Measurement categories (IAS 39)	**Loans and receivables**	**Held-for-trading**	**Available for sale*** **	
Cash reserve	3,679.3	0.0	0.0	3,679.3
Loans and advances to banks	858.0	0.0	0.0	858.0
Loans and advances to customers*	9,348.9	0.0	0.0	9,348.9
Trading assets	0.0	3,702.1	0.0	3,702.1
Positive market values from derivative financial instruments	0.0	1,420.8	0.0	1,420.8
Financial assets	0.0	0.0	4,874.2	4,874.2
Other financial instruments	34.5	0.0	0.0	34.5
Total financial instruments	**13,920.7**	**5,122.9**	**4,874.2**	**23,917.8**

Liabilities as at 31.12.2017 in €m

Measurement class	**At amortised cost**	**At fair value**	**Total**
Measurement categories (IAS 39)	**Other liabilities**	**Held-for-trading**	
Deposits by banks	2,916.4	0.0	2,916.4
Customer accounts**	14,591.7	0.0	14,591.7
Trading liabilities	0.0	2,365.2	2,365.2
Negative market values from derivative financial instruments	0.0	1,248.1	1,248.1
Subordinated capital	395.3	0.0	395.3
Other financial instruments	85.9	0.3	86.2
Total financial instruments	**17,989.3**	**3,613.6**	**21,602.9**

* Loans and advances to customers include transactions with a book value of €96.0million shown within the scope of the hedge accounting.

** Our customers' deposits are used in part to refinance our trading divisions. Customer accounts include transactions with a book value of €34.6million shown within the scope of the hedge accounting.

*** Also includes acquisition costs taking into account necessary impairments of measured investments where necessary.

57 Remaining Maturities of Financial Instruments

The residual terms of non-derivative financial instruments are derived as follows:

in €m		<1 month	1–3 months	3-12 months	1 -4 years	>4 years	Total
Loans and advances to banks	31.12.2018	1,294.6	65.0	46.8	12.9	41.4	1,460.7
	31.12.2017	685.9	117.0	35.2	15.0	4.9	858.0
Loans and advances to customers	31.12.2018	2,400.1	2,227.6	1,279.2	2,726.3	2,116.6	10,749.8
	31.12.2017	3,367.5	902.7	790.7	2,727.2	1,560.8	9,348.9
Bonds and other fixed-income securities and tradable receivables of the trading assets	31.12.2018	61.3	47.5	533.3	692.0	836.0	2,170.1
	31.12.2017	71.7	79.3	505.0	1,520.7	766.3	2,943.0
Bonds and other fixed-income securities and promissory note loans of the financial assets*	31.12.2018	312.7	90.8	66.4	1,436.4	1,602.1	3,508.4
	31.12.2017	330.6	71.9	377.7	2,174.9	1,851.1	4,806.2
Bonds and other fixed-income securities and promissory note loans of other financial assets mandatorily measured at fair value through profit or loss*	31.12.2018	0.0	0.0	0.0	2.2	85.8	88.0
	31.12.2017	n/a	n/a	n/a	n/a	n/a	n/a
Total	**31.12.2018**	**4,068.7**	**2,430.9**	**1,925.7**	**4,869.8**	**4,681.9**	**17,977.0**
		4,455.7	**1,170.9**	**1,708.6**	**6,437.8**	**4,183.1**	**17,956.1**

in €m		<1 month	1–3 months	3-12 months	1 -4 years	>4 years	Total
Deposits by banks	31.12.2018	757.0	414.7	2.0	1,620.7	524.5	3,318.9
	31.12.2017	836.5	0.1	4.0	1,674.5	401.3	2,916.4
Customer accounts	31.12.2018	14,212.2	393.9	201.1	6.7	47.5	14,861.4
	31.12.2017	11,013.5	456.9	199.3	2,871.4	50.6	14,591.7
Promissory note loans, bonds, certificates and warrants of the trading liabilities	31.12.2018	235.4	234.1	629.8	121.0	596.7	1,817.0
	31.12.2017	311.5	219.4	959.3	200.1	630.6	2,320.9
Subordinated capital	31.12.2018	0.0	20.5	3.1	162.7	394.2	580.5
	31.12.2017	12.5	0.0	15.0	182.0	185.8	395.3
Total	**31.12.2018**	**15,204.6**	**1,063.2**	**836.0**	**1,911.1**	**1,562.9**	**20,577.8**
		12,174.0	**676.4**	**1,177.6**	**4,928.0**	**1,268.3**	**20,224.3**

* The figures as at 31.12.2018 were prepared under IFRS 9. The figures and information on the reference periods have not been adjusted and conform to the hitherto applicable accounting standards as at the reporting date shown. Further details are available in the Notes to the consolidated financial statements.

58 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 instrument, 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, whose prices are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and the input parameters of 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, counterparty risk, own credit or financing risk. These remeasurements are not calculated on the basis of individual transactions but on a net basis in accordance with the steering committee.

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

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

Funding fair value adjustments (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 valuation methods applied compared with 31 December 2017.

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

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

31.12.2017	Level 1	Level 2	Level 3	Measured at cost	Total
in €m					
Assets					
Trading assets	**743.1**	**2,943.0**	**16.0**	**0.0**	**3,702.1**
Bonds and other fixed-income securities	0.0	1,241.5	0.0	0.0	1,241.5
Equities and other non-fixed-income securities	743.1	0.0	16.0	0.0	759.1
Tradable receivables	0.0	1,701.5	0.0	0.0	1,701.5
Positive market values from derivative financial instruments	**163.7**	**1,255.2**	**1.9**	**0.0**	**1,420.8**
Positive market values of derivatives	163.7	1,252.4	1.9	0.0	1,418.0
of which interest rate transactions	0.0	587.5	0.0	0.0	587.5
of which foreign-exchange-based transactions	0.0	646.6	1.9	0.0	648.5
of which equity / index-related transactions	163.7	4.6	0.0	0.0	168.3
of which commodity-related transactions	0.0	13.7	0.0	0.0	13.7
Derivatives in hedging relationships	0.0	2.7	0.0	0.0	2.7
Derivatives held in the banking book	0.0	0.1	0.0	0.0	0.1
Financial assets	**47.3**	**4,812.6**	**6.8**	**7.5**	**4,874.2**
Bonds and other fixed-income securities	0.0	4,663.8	6.8	0.0	4,670.6
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0	0.0
Investment certificates	33.5	0.0	0.0	0.0	33.5
Promissory note loans	0.0	135.6	0.0	0.0	135.6
Investments	13.8	13.2	0.0	7.5	34.5
Liabilities					
Trading liabilities	**0.0**	**2,325.5**	**39.7**	**0.0**	**2,365.2**
Promissory note loans	0.0	288.2	0.0	0.0	288.2
Bonds	0.0	747.3	4.5	0.0	751.8
Certificates and warrants	0.0	1,245.7	35.2	0.0	1,280.9
Delivery obligations arising from securities sold short*	0.0	44.3	0.0	0.0	44.3
Negative market values from derivative financial instruments	**189.3**	**1,056.9**	**1.9**	**0.0**	**1,248.1**
Negative market values of derivatives	189.3	1,009.4	1.9	0.0	1,200.6
of which interest rate transactions	0.0	348.8	0.0	0.0	348.8
of which foreign-exchange-based transactions	0.0	646.2	1.9	0.0	648.1
of which equity / index-related transactions	189.3	0.7	0.0	0.0	190.0
of which commodity-related transactions	0.0	13.7	0.0	0.0	13.7
Derivatives in hedging relationships	0.0	47.2	0.0	0.0	47.2
Derivatives held in the banking book	0.0	0.3	0.0	0.0	0.3

* Reported in part under Level 1 in the previous year

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 payments
	Discount certificates	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Bonus certificates	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Express certificate	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.

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

	Assets			Liabilities					
31.12.2017	**Fair value of trading assets (in €m)**	**Fair value of financial assets (in €m)**	**Fair value of financial assets (in €m)**	**Fair value of trading liabilities (in €m)**	**Fair value of trading liabilities (in €m)**	**Measure-ment method**	**Significant unobser-vable parameters (Level 3)**	**Uncertainty of interval margin (in €m)**	**Range of estimates for unobservable input factors**
Illiquid equity instruments / private equity certificates	16.0			16.0		Modified net asset value method	–	0.0 to 0.0	–5 % to 5 % price change
FX options			1.9		1.9	Analytical Black-Scholes approach	FX volatility	0.0 to 0.0	95 % confi-dence interval based on average prices for unobservable volatility
Illiquid debt instruments		6.8				Present value method	Credit spread	–0.1 to 0.1	–10 % to 10 % credit spread change
Volatility-dependent options				13.8		Analytical Black-Scholes approach	Volatility	–0.1 to 0.1	17 % to 43 % (27 %)
Currency-hedged certificates				9.9		Analytical Black-Scholes approach	Correlation between underlyings	–0.0 to 0.0	–58 % to 25 % (–7 %)

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 %.

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:

	Assets			Liabilities	
in €m	Trading assets	Other financial assets mandatorily measured at fair value through profit or loss*	Positive market values from derivative financial instruments	Trading liabilities	Negative market values from derivative financial instruments
01.01.2018	**16.0**	**14.3**	**1.9**	**39.7**	**1.9**
Changes in the book value					
recognised in the income statement	–0.7	3.0	0.3	2.1	0.3
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	1.5	0.0	0.0	0.0
Issuance	0.0	0.0	0.0	3.6	0.0
Sales	0.0	0.0	0.0	7.3	0.0
Maturities / repayments	4.5	0.3	0.0	8.9	0.0
Transfers to Level 3	0.0	0.0	0.5	0.0	0.5
Transfers out of Level 3	0.0	0.0	1.5	0.0	1.5
31.12.2018	**10.8**	**18.5**	**1.2**	**29.2**	**1.2**

* Holdings in partnerships or unlisted public limited companies, whose measurement in 2017 was oriented on the acquisition costs, taking into consideration any necessary write-downs, will be reported in Level 3 from 1 January 2018 onwards.

	Assets			Liabilities	
in €m	Trading assets	Financial assets	Positive market values from derivative financial instruments	Trading liabilities	Negative market values from derivative financial instruments
01.01.2017	**24.0**	**29.4**	**2.4**	**61.3**	**2.9**
Changes in the book value					
recognised in the income statement	–0.4	22.4	0.0	–2.4	0.0
recognised directly in equity	0.0	–22.5	0.0	0.0	0.0
Purchases	0.0	0.0	1.9	0.3	1.9
Issuance	0.0	0.0	0.0	17.6	0.0
Sales	0.0	22.5	0.0	0.5	0.0
Maturities / repayments	7.6	0.0	0.4	36.6	0.9
Transfers to Level 3	0.0	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	2.0	0.0	2.0
31.12.2017	**16.0**	**6.8**	**1.9**	**39.7**	**1.9**

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

Level 1 instruments were not reclassified as Level 2 during the period under report, neither were Level 2 instruments transferred to Level 1.

Derivatives with net positive and negative market values of €0.5million each (2017: none) were transferred from Level 2 to Level 3 during the period under report. Conversely, derivatives with net positive and negative market values of €1.5million each (2017: €2.0million) were transferred from Level 3 to Level 2 during the same period.

Due to the short maturities and 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 book value is often immaterial for this item. The differences between book values and fair values are derived from the following table:

in €m	31.12.2018		31.12.2017	
	Book value	Fair value	Book value	Fair value
Assets				
Loans and advances to banks (gross)	1,460.7	1,461.2	858.3	858.9
Loans and advances to customers (gross)	10,780.5	10,904.4	9,393.1	9,462.4
Liabilities				
Deposits by banks	3,318.9	3,299.8	2,916.4	2,891.6
Customer accounts	14,861.4	14,867.9	14,591.7	14,596.3
Subordinated capital*	580.5	588.0	395.3	426.5

*The previous year's fair value figures were adjusted.

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 €2,916.3million (2017: €2,558.5million) and the irrevocable loan commitments to €10,653.8million (2017: €10,208.1million).

59 Day-1 Profit or Loss

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

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

In €m	2018	2017
As at 01.01	**0.3**	**0.2**
New business	0.0	0.3
Day-1 profit or loss recognised in the income statement	0.0	–0.2
of which positions closed out	0.0	–0.2
of which matured transactions	0.0	0.0
of which observable market parameters	0.0	0.0
As at 31.12	**0.3**	**0.3**

60 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
31.12.2018	Derivatives	1,265.6	0.0	1,265.6	341.4	105.5	818.7
31.12.2017	Derivatives	1,420.8	0.0	1,420.8	318.6	308.2	794.0

The offsettable financial liabilities 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
31.12.2018	Derivatives	978.7	0.0	978.7	341.4	26.8	610.5
31.12.2017	Derivatives	1,248.1	0.0	1,248.1	318.6	122.3	807.2

Loans and advances, as well as liabilities in conjunction with our repurchase agreements and securities lending transactions, were not offset (cf. Note 'Repurchase Agreements and Securities Lending Transactions').

61 Holdings in Foreign Currency

As at 31 December 2018, assets denominated in a foreign currency were valued at €3,447.5million (2017: €2,880.1million) and the corresponding liabilities at €4,214.5million (2017: €3,858.2million). As in previous years, the bulk of these assets and liabilities were in US dollars.

62 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 letting 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 2018	Total 2017
OTC products	FRAs	0.0	0.0	0.0	0.0	0.0
	Interest rate swaps	2,220.0	6,355.5	3,867.6	12,443.1	14,099.0
	Interest rate options	1,126.2	3,076.0	373.5	4,575.7	4,674.6
	Forward transactions	679.8	313.5	0.0	993.3	1,719.6
Exchange-listed products	Interest rate futures	433.8	6.0	0.0	439.8	689.1
	Interest rate options	0.0	0.0	0.0	0.0	0.0
Interest rate transactions		**4,459.8**	**9,751.0**	**4,241.1**	**18,451.9**	**21,182.3**
OTC products	Forward currency contracts	72,919.2	2,045.8	0.0	74,965.0	61,719.3
	Cross currency swaps	60.1	333.0	88.7	481.8	459.8
	Foreign exchange options	5,709.3	1,461.7	0.0	7,171.0	6,274.6
Foreign exchange-based transactions		**78,688.6**	**3,840.5**	**88.7**	**82,617.8**	**68,453.7**
OTC products	Forward transactions	303.1	11.1	0.0	314.2	258.5
	Options	20.5	0.0	0.0	20.5	49.8
Commodity-related transactions		**323.6**	**11.1**	**0.0**	**334.7**	**308.3**
OTC products	Forward transactions	0.0	0.0	0.0	0.0	0.0
	Equity/index options	1.3	0.2	0.0	1.5	0.2
	Equity swaps	0.0	19.7	1.4	21.1	47.9
Exchange-listed products	Equity/index futures	441.4	15.5	0.0	456.9	873.3
	Equity/index options	5,415.4	2,409.2	0.0	7,824.6	5,188.5
Equity / index-related transactions		**5,858.1**	**2,444.6**	**1.4**	**8,304.1**	**6,109.9**
Total financial derivatives		**89,330.1**	**16,047.2**	**4,331.2**	**109,708.5**	**96,054.2**

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 2018	Total 2017	Total 2018	Total 2017
OTC products	Interest rate swaps	10.2	111.8	350.7	472.7	544.1	255.3	336.4
	Interest rate options	4.0	8.8	2.2	15.0	28.2	15.8	30.5
	Forward transactions	10.8	0.0	0.1	10.9	17.9	13.3	29.1
Interest rate transactions		**25.0**	**120.6**	**353.0**	**498.6**	**590.2**	**284.4**	**396.0**
OTC products	Forward currency contracts	379.2	31.1	0.0	410.3	556.3	394.5	556.1
	Cross currency swaps	7.0	17.6	1.8	26.4	29.3	26.4	29.3
	Foreign exchange options	48.7	13.2	0.0	61.9	63.0	61.9	63.0
Foreign exchange-based transactions		**434.9**	**61.9**	**1.8**	**498.6**	**648.6**	**482.8**	**648.4**
OTC products	Forward transactions	8.6	0.6	0.0	9.2	11.8	9.2	11.8
	Options	1.3	0.0	0.0	1.3	1.9	1.3	1.9
Commodity-related transactions		**9.9**	**0.6**	**0.0**	**10.5**	**13.7**	**10.5**	**13.7**
OTC products	Forward transactions	0.1	0.0	0.0	0.1	0.0	0.0	0.0
	Equity/index options	8.1	1.0	0.0	9.1	1.9	0.0	0.0
	Equity swaps	0.0	0.0	0.0	0.0	2.7	2.1	0.7
Equity / index-related transactions		**8.2**	**1.0**	**0.0**	**9.2**	**4.6**	**2.1**	**0.7**
Total financial derivatives		**478.0**	**184.1**	**354.8**	**1,016.9**	**1,257.1**	**779.8**	**1,058.8**

63 Hedge Accounting

The Bank uses derivatives (interest rate swaps) to hedge against market interest rate risk on fixed-income bonds, loans and issued registered bonds using the provisions for the reporting of hedging relationships (cf. Note 7). We also report on the emergence and management of market interest rate risk within the Risk Report as part of the audited consolidated financial statements.

With this hedging of fair value fluctuations (so-called fair value hedges), the hedged interest rate-induced volatility of the underlying transactions together with the volatility of the hedging instruments are recognised in the income statement. Inefficiencies can arise in the existing hedging relationships, which are reflected in the hedge results. Basis risks that arise from using different discount curves in the market value calculation are usually the reason for inefficiencies in hedge results.

The following tables provide information about the accounting impact of the reporting of hedging relationships.

Hedging instruments

31.12.2018

in €m

Hedged risk	Nominal amount	Positive market values	Negative market values	Balance sheet item
Interest rate risk	928.1	0.0	22.8	Positive or negative market values from derivative financial instruments
Total	928.1	0.0	22.8	

31.12.2017

in €m

Hedged risk	Nominal amount	Positive market values	Negative market values	Balance sheet item
Interest rate risk	1,369.1	2.7	47.2	Positive or negative market values from derivative financial instruments
Total	1,369.1	2.7	47.2	

Hedged underlying transactions

31.12.2018 in €m	Book values		Cumulative hedge accounting adjustment amount, which is included in the book value of the underlying transactions		
Hedged risk	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Balance sheet item**
Interest rate risk	881.9	–	13.9	–	Non-trading portfolio
	30.1	–	0.1	–	Loans and advances to customers
	–	39.4	–	2.3	Customer accounts
Total	912.0	39.4	14.0	2.3	

31.12.2017 in €m	Book values		Cumulative hedge accounting adjustment amount, which is included in the book value of the underlying transactions		
Hedged risk	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Balance sheet item**
Interest rate risk	1,251.7	–	28.1	–	Non-trading portfolio
	96.0	–	1.0	–	Loans and advances to customers
	–	39.7	–	3.0	Customer accounts
Total	1,347.7	39.7	29.1	3.0	

The hedge result can be broken down as follows:

2018 in €m			Ineffectiveness
	Balance sheet item	**Interest rate-induced fair value change***	**Recognised in the income statement in net trading income**
From hedging instruments	Positive or negative market values from derivative financial instruments	0.6	0.6
From underlying transactions	Non-trading portfolio	0.2	−0.5
	Loans and advances to customers	0.0	
	Customer accounts	−0.7	
Total			0.1

2017 in €m			Ineffectiveness
	Balance sheet item	**Interest rate-induced fair value change**	**Recognised in the income statement in net trading income**
From hedging instruments	Positive or negative market values from derivative financial instruments	26.5	26.5
From underlying transactions	Non-trading portfolio	−28.0	−27.9
	Loans and advances to customers	−0.6	
	Customer accounts	0.7	
Total			−1.4

* The change is stated in the market value of the financial instruments used as a basis for reporting the ineffectiveness of the hedge for the period.

The fair value fluctuations of the underlying transactions that are attributable to non-interest rate-induced changes in value (such as changed credit risks) are not hedged. Where the non-trading portfolio is affected by this, these fluctuations are reported in the statement of comprehensive income as gains/losses from debt instruments at fair value without effect on the income statement (IFRS 9).

The residual terms of the interest rate swaps used within the scope of the hedge accounting are shown in the following table.

Residual terms of the hedging instruments

31.12.2018	Nominal amounts with a residual term of			Nominal amounts
in €m	up to 1 year	over 1 year up to 5 years	over 5 years	Total
Interest rate risk	275.0	228.0	425.1	928.1
Total	275.0	228.0	425.1	928.1

31.12.2017	Nominal amounts with a residual term of			Nominal amounts
in €m	up to 1 year	over 1 year up to 5 years	over 5 years	Total
Interest rate risk	230.0	393.0	746.1	1,369.1
Total	230.0	393.0	746.1	1,369.1

64 Contingent Liabilities and Other Obligations

in €m	31.12.2018	31.12.2017
Contingent liabilities on guarantees and indemnity agreements	2,916.3	2,558.5
Irrevocable loan commitments	10,653.8	10,208.1
Total	**13,570.1**	**12,766.6**

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 Groups cannot know in detail if, when and to what extent claims can be made from these contingent liabilities.

The residual terms of the contingent liabilities and irrevocable loan commitments are as follows:

in €m	31.12.2018		31.12.2017	
	Contingent liabilities	Irrevocable loan commitments	Contingent liabilities	Irrevocable loan commitments
<1 month	637.4	528.8	542.8	275.0
1–3 months	222.8	137.9	211.0	167.4
3–12 months	883.9	676.0	632.8	1,388.6
12 months–5 years	1,045.1	8,166.5	877.1	7,496.4
>5 years	127.1	1,144.6	294.8	880.7
Total	**2,916.3**	**10,653.8**	**2,558.5**	**10,208.1**

As part of the annual levy, 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 €5.4million (2017: €5.4million) (cf. Note 'Assets Pledged as Collateral').

No material legal disputes and associated litigation risks were pending as at 31 December 2018.

65 Lessor and Lessee Figures

Obligations from lease agreements (incl. rental and lease contracts) amounted to €113.3million (2017: €110.4million).

in €m	31.12.2018	31.12.2017
Up to 1 year	21.4	21.3
Over 1 year up to 5 years	49.7	44.4
Over 5 years	42.2	44.7
Total commitments arising from leasing and rental contracts	**113.3**	**110.4**

HSBC Trinkaus & Burkhardt Group figures is to a lesser extent a tenant of commercial real estate (lessee).

The following minimum leasing payments will be received from these agreements in the coming years:

in €m	31.12.2018	31.12.2017
Up to 1 year	1.9	1.7
Over 1 year up to 5 years	8.6	8.4
Over 5 years	5.6	6.6
Total maturities	**16.1**	**16.7**

66 Assets Pledged as Collateral

Securities with a nominal value of €553.5million (2017: €661.7million) were deposited as collateral for transactions conducted on futures exchanges and for securities lending transactions. The Bank pledged collateral in the amount of €1,550.0million (2017: €1,550.0million) in connection with longer-term refinancing operations with the central bank. In the public development lending business, loans and advances in the amount of €555.6million (2017: €428.6million) secure the funding available to the development banks. In conjunction with the bank levy or the EDB contribution, the Bank has lodged cash collateral of €5.4million with (2017: €5.4million).

Financial instruments with a value of €1.294,8million (2017: €2,501.9million) were available for use as collateral for peak funding facilities on the balance sheet date.

67 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	31.12.2018	31.12.2017
Trust assets	**107.7**	**110.8**
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Investments	107.7	110.8
Trust liabilities	**107.7**	**110.8**
Deposits by banks	0.0	0.0
Customer accounts	107.7	110.8

Assets managed for investors in special assets and investment stock corporation amount to €207.2billion (2017: €206.4billion).

68 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 €*** thousand	Net profit for 2018 in €000 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH*	Dusseldorf	100.0	118,502	0
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	89,909	–245
Internationale Kapitalanlagegesellschaft mbH*	Dusseldorf	100.0	44,000	0
HSBC INKA Investment-AG TGV**	Dusseldorf	100.0	1,881	–16
HSBC Transaction Services GmbH*	Dusseldorf	100.0	15,000	0
HSBC Operational Services GmbH	Dusseldorf	90.1	1,000	0
HSBC Trinkaus Family Office GmbH*	Dusseldorf	100.0	25	0
Trinkaus Private Equity Management GmbH	Dusseldorf	100.0	699	674
Trinkaus Private Equity Verwaltungs GmbH	Dusseldorf	100.0	30	5
HSBC Global Asset Management (Germany) GmbH*	Dusseldorf	100.0	5,001	0
HSBC Global Asset Management (Austria) GmbH****	Vienna	100.0	361	31
HSBC Global Asset Management (Switzerland) AG	Zurich	50.0	1,945	225
Companies with a special mission				
HSBC Trinkaus Real Estate GmbH*	Dusseldorf	100.0	167	0
HSBC Trinkaus Immobilien Beteiligungs-KG	Dusseldorf	100.0	3,010	310
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Dusseldorf	100.0	29	7
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Dusseldorf	100.0	30	5
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Dusseldorf	100.0	22	0
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Dusseldorf	100.0	28	3
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Dusseldorf	100.0	40	15
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Dusseldorf	100.0	5,489	2,143

* Profit-transfer agreement
** Equities issued by private companies
*** Figures as at 31.12.2018 before allocation of funds of the adjacent annual results
**** Figures as at 31.12.2017

The Bank also holds a 24.94 % stake in sino AG, Dusseldorf. As at 30 September 2017, the equity held in the company amounted to €4.859,000 and net profit to €108,000.

The holdings of equity instruments at fair value without effect on the income statement (IFRS 9) relate to indirect and direct shareholdings in Nürnberger Versicherung (€23.7million).

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

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

69 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, the business relationships with structured units are broken down into the following three groups:

Structured capital market products:
In the HSBC Trinkaus & Burkhardt Group, structured units are used to provide customers with access to specific assets or 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.

Property / project financing
Within the framework of the lending business, the HSBC Trinkaus & Burkhardt also extends loans to financing vehicles. These companies are structured units, if they have been founded specifically for the purpose of financing or operating the respective financed asset (e.g. a property) and these are not controlled primarily via the voting rights. Such financing is generally secured by the assets to be financed. The Group operates here primarily as a lender to the financing vehicles.

Asset management business:
The asset management business comprises the capital management business operated under the provisions of the German Investment Code (Kapitalanlagegesetzbuch – KAGB), the asset management and the custodian bank business. The Group acts here as a service provider to investment funds, which represent structured units within the meaning of the accounting standards, among other things.

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

The Group achieves revenue from the provision of services, such as asset management remuneration and commission from the asset management business. In addition, dividends and interest income are generated by funding parts of the structured units.

The income and expenses from business relationships with non-consolidated structured units are broken down as follows:

31.12.2018 in €m	Structured capital market products	Property / project financing	Asset management business
Income from non-consolidated structured units			
Net interest income	2.6	6.6	–7.2
Net fee income	15.6	2.2	159.9
Net other income	0.1	0.0	0.0

31.12.2017 in €m	Structured capital market products	Property / project financing	Asset management business
Income from non-consolidated structured units			
Net interest income	2.6	3.1	–6.2
Net fee income	36.8	1.7	156.5
Net other income	0.1	0.0	0.0

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

The following tables show the book values of the assets, the maximum default risk, the scope of the structured units as well as the liabilities of the HSBC Trinkaus & Burkhardt Group to the non-consolidated structured units, as at the respective reporting date. Regarding the extent of the structured units, the total assets of companies and the amount of assets under management for funds are taken into consideration.

31.12.2018 in €m	Structured capital market products	Property / project financing	Asset management business
Assets			
Loans and advances to customers	162.1	384.0	259.3
Trading assets	10.8	1.1	0.0
Financial assets	25.7	0.0	0.0
Other assets	0.0	0.0	4.4
Total assets	**198.6**	**385.1**	**263.7**
Loan commitments	5.9	425.6	0.0
Maximum default risk	**204.5**	**810.7**	**263.7**
Scope of the structured units*	**6,086.3**	**703.5**	**808,061.6**
Liabilities			
Customer accounts	10.2	22.8	6,003.8
Other liabilities	3.2	0.3	71.5
Total equity and liabilities	**13.4**	**23.1**	**6,075.3**

* Some figures as at 31.12.2017

31.12.2017 in €m	Structured capital market products	Property / project financing	Asset management business
Assets			
Loans and advances to customers	180.8	340.8	305.0
Trading assets	16.0	0.0	0.0
Financial assets	34.0	0.0	0.0
Other assets	0.0	0.0	0.0
Total assets	**230.8**	**340.8**	**305.0**
Loan commitments	9.5	292.8	0.0
Maximum default risk	**240.3**	**633.6**	**305.0**
Scope of the structured units*	**5,634.5**	**3,227.5**	**618,852.2**
Liabilities			
Customer accounts	6.0	10.0	6,043.9
Other liabilities	2.7	0.1	5.3
Total equity and liabilities	**8.7**	**10.1**	**6,049.2**

* Some figures as at 31.12.2016

As in the previous year, no non-contractual financial support was granted to non-consolidated structured units in the 2018 financial year.

70 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, Dusseldorf
- HSBC Trinkaus Family Office GmbH, Dusseldorf
- HSBC Global Asset Management (Germany) GmbH, Dusseldorf
- Internationale Kapitalanlagegesellschaft mbH, Dusseldorf
- HSBC Transaction Services GmbH, Dusseldorf
- HSBC Trinkaus Real Estate GmbH, Dusseldorf
- HSBC Operational Services GmbH, Dusseldorf
- Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH und Co. KG, Dusseldorf

71 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully-consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxemburg, Internationale Kapitalanlagegesellschaft mbH, Dusseldorf, HSBC Global Asset Management (Deutschland) GmbH, Dusseldorf, and HSBC Transaction Services GmbH, Dusseldorf – 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.

72 Staff

Annual average	**2018**	**2017**
Staff employed abroad	5	5
Staff employed in Germany	2,990	2,839
Total (including trainees)	**2,995**	**2,844**
of which female members of staff	1,275	1,225
of which male members of staff	1,720	1,619

73 Auditors' Fees

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

in €m	2018	2017
Audit services	2.3	2.1
Other audit services	0.2	0.1
Tax advisory services	0.0	0.1
Other services	0.0	0.2
Total	**2.5**	**2.5**

The auditing services comprise mainly the fees for the audit of the Bank's financial statements and consolidated financial statements as well as the subsidiaries included in its consolidated financial statements, for the audit of the securities services and custodial business, and for the audit review of the condensed interim financial statements as at 30 June 2018. Other audit services contain mainly fees for audit and consulting services prescribed by law and by the regulatory authorities.

74 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 are defined as related parties provided 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	2018	2017
Interest income	0.8	0.7
Interest expense	6.5	7.1
Fee income	79.1	96.1
Fee and commission expenses	1.4	1.6
Administrative expenses	12.0	18.8
Net trading income	−0.3	0.4
Net other income	0.0	11.5
Total	**59.7**	**81.2**

Assets include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Loans and advances to banks	898.0	412.6	0.0	0.0
Loans and advances to customers	0.4	23.1	90.0	91.5
Other assets	10.2	6.2	0.0	0.0
Total	**908.6**	**441.9**	**90.0**	**91.5**

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

Deposits include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Deposits by banks	709.5	475.0	0.0	0.0
Customer accounts	3.6	5.2	15.1	11.6
Other liabilities	363.4	194.7	0.0	0.0
Total	**1,076.5**	**674.9**	**15.1**	**11.6**

Deposits by banks comprise mainly short-term deposits of other HSBC units. Subordinated deposits of HSBC Bank plc are mainly reported under assets

Trading assets/liabilities and financial assets do not include any transactions concluded with affiliated companies. The derivative transactions concluded with affiliated companies (mainly interest rate and currency-related derivative transactions) are shown in the following table:

	Derivatives	
in €m	**31.12.2018**	**31.12.2017**
Derivatives with positive market values	562.6	746.9
Derivatives with negative market values	485.5	447.6
Total	**1,048.1**	**1,194.5**

Compensation of the Executive Bodies
In accordance with the resolution passed at the Annual General Meeting on 14 June 2017, the information pursuant to section 314 (1) No. 6 a sentences 5 to 8 of the German Commercial Code (HGB) relating to the personalised remuneration details of the members of the Management Board is not to be disclosed.

At €5,513.8thousand, the sum of the remuneration components defined as fixed compensation pursuant to section 2 para 6 of the Remuneration Ordinance for Institutions (InstitutsVergVO) for all members of the Management Board was higher than the previous year (€4,743.4thousand), taking into account the changes to the composition of the Management Board. The variable remuneration component amounted to €4,352.8thousand (2017: €5,913.3thousand).

Remuneration of the Supervisory Board members for the 2018 financial year amounted to €2,296.8thousand (2017: €3,077.6thousand) in the form of shares and €2,056.0thousand (2017: €2,835.7thousand) in cash. The variable share of the Management Board remuneration for the 2018 financial year includes a long-term remuneration component of €2,708.1thousand (2017: €3,644.7thousand), of which €1,233.6thousand (2017: €1,701.40thousand) is attributable to variable remuneration paid in cash and €1,474.4thousand (2017: €1,943.3.0thousand) is attributable to variable remuneration in HSBC Holdings plc. shares.

Provisions totalling €14.8million (2017: €14.6million) 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, €0.7million (2017: €0.9million) was recognised in the income statement.

Severance payments for members of the Management Board and risk takers in the amount of €0.1million (2017: €0.2million) was granted in 2018.

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.

Remuneration of the Supervisory Board members amounted to €1,190,049.32 (2017: €1,217,535.62) for the 2018 financial year. The members of the Board of Directors received remuneration of €422,805.82 (2017: €428,775.00). As in the previous year, fees were also paid in this financial year to one member of the Supervisory Board for consultancy services provided. These totalled €59,500.00 (2017: €119,000.00). No separate pension obligations exist for Supervisory Board members. The general rules for employees, former Managing Partners and former members of the Management Board of the Bank apply for the pension obligations to the employees' representatives as well as former members of the Management Board and the former members of the Management Board.

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 €3.9million (2017: €4.4million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €44.3million (2017: €46.6million).

Total expenditure in accordance with IAS 24 for the 2018 financial year amounted to €11.7million (2017: €12.8million). This was recognised in administrative expenses in the period in which it arose and according to the provisions of the underlying standards.

75 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 31.12.2018	Number of option rights 31.12.2017
SAYE 2012 (5Y)	01.08.2012	1.30	5.35	0.0	1,848
Total				**0.0**	**1,848**

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

The fair value of the options was calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value was calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options were generally exercised by staff on August 1 of a financial year. The options held by staff that availed of the right to exercise at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 01 August 2017 was €8.52.

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2018	SAYE 2012 (5J)	1,848	5.35
Exercised in the course of the year	SAYE 2012 (5J)	1,848	5.35
Forfeited in the course of the year		0.0	0.00
Forfeited in the course of the year		0.0	0.00
Balance as at 31.12.2018		0.0	0.00
of which outstanding option rights		0.0	
of which exercisable option rights		0.0	

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2017	SAYE 2010–2012	31,838	5.43
Exercised in the course of the year	SAYE 2011 (5J)	27,836	5.43
Forfeited in the course of the year	SAYE 2011–2012	1,034	5.80
Forfeited in the course of the year	SAYE 2011–2012	1,120	5.35
Balance as at 31.12.2017		1,848	5.35
of which outstanding option rights		0.0	
of which exercisable option rights		1,848	

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 (2017: €18.1million) were assigned for the 2018 financial year. The shares will be transferred on a pro rata basis in the following financial years.

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

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the Commission of the German Corporate Governance Code pursuant to section 161 of the AktG and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG website under http://www.about.hsbc.de/de-de/investor-relations/corporate-governance.

77 Offices held by Members of the Management Board

As at 31 December 2018, 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 (Chairperson)

Position	Company
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin (until 6 July 2018)
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e.V., Berlin (until 6 July 2018)
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 (Germany) GmbH, Dusseldorf
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Dusseldorf (until 21 July 2018)
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, Dusseldorf
Deputy Chairman of the Supervisory Board	Dusseldorfer Hypothekenbank AG, Dusseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf

Dr. Jan Wilmanns

Position	Company
Chairman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf
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	HSBC Global Asset Management (Germany) GmbH, Dusseldorf

Martin Hörstel

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Germany) GmbH, Dusseldorf

78 Offices Held by Other Members of Staff

As of 31 December 2018, 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 Portfolios SICAV, Luxembourg
Non-Executive Director	HSBC Islamic 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, Zürich, Switzerland
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf

Mark Cringle

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf (until 4 May 2018)

Thomas Fahlenbock

Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Dusseldorf

Ulrich Gericke

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Germany) GmbH, Dusseldorf
Member of the Supervisory Board	Monega Kapitalanlagegesellschaft mbH, Cologne

Carsten Hennies

Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Dusseldorf
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Markus Hollmann

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf (until 4 May 2018)

Dr Detlef Irmen

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf (until 4 May 2018)

Dr Andreas Kamp

Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Götz Röhr

Position	Company
Member of the Supervisory Board	Theodor-Fliedner-Heim GmbH, Solingen
Member of the Supervisory Board	tick Trading Software AG, Dusseldorf
Member of the Supervisory Board	sino AG, Dusseldorf

Heiko Schröder

Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Dusseldorf (until 31 August 2018)
Deputy Chairman of the Supervisory Board	EDD AG, Dusseldorf (formerly Börse Dusseldorf AG)
Member of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Gina Slotosch

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf

Norbert Stabenow

Position	Company
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Dusseldorf

Oliver Szepan

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf

Dr. Thorsten Warmt

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf

Heiner Weber

Position	Company
Member of the Supervisory Board	Pensionskasse vom Deutschen Roten Kreuz, VVaG, Bonn
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland

Steffen Zeise

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

79 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	Andersch AG, Frankfurt am Main
Chairman of the Supervisory Board	Scheidt & Bachmann GmbH, Mönchengladbach
Member of the Supervisory Board	E.ON SE, Essen

Samir Assaf

Position	Company
Chairman of the Board	HSBC France S.A., Paris, France
Non-executive board member	SABB SA Saudi Arabia, Saudi Arabia

Anna Dimitrova

Position	Company
Member of the Supervisory Board	Kabel Deutschland Holding AG, Munich (until 31 October 2018)

James Alasdair Emmett

Position	Company
Non-executive board member	HSBC France S.A., Paris, France

Dr. Hans Michael Gaul (until 30 June 2018)

Position	Company
Member of the Supervisory Board	Siemens AG, Munich

Sieglinde Klaußner

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Dusseldorf

Friedrich Merz

Position	Company
Chairman of the Supervisory Board	BlackRock Asset Management Deutschland AG, Munich
Chairman of the Supervisory Board	Flughafen Köln/Bonn GmbH, Cologne
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	Global Blue S.A., Eysins, Switzerland
Member of the Board of Directors	Global Blue Group AG, Brüttisellen, Switzerland
Member of the Board of Directors	Luxembourg Investment Company 261 S.a.r.l., Luxembourg
Member of the Board of Directors	Partners Group Holding AG, Baar, Switzerland
Member of the Board of Directors	Partners Group AG, Baar, Switzerland
Director – non executive	HSBC Bank plc, London, Great Britain

Hans-Jörg Vetter

Position	Company
Chairman of the Supervisory Board	Herrenknecht AG, Schwanau

Daniela Weber-Rey

Position	Company
Member of the Board of Directors	FNAC Darty S.A., Ivry-sur-Seine, France

80 Publication

The annual report will be released for publication on 12 March 2019.

Dusseldorf, 27 February 2019

Carola Gräfin v. Schmettow	Dr. Rudolf Apenbrink	Paul Hagen
Fredun Mazaheri	Nicolo Salsano	Dr. Jan Wilmanns

Independent Auditor's Report

To HSBC Trinkaus & Burkhardt AG, Dusseldorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Dusseldorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in capital and consolidated cash flow statement for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HSBC Trinkaus & Burkhardt AG for the financial year from 1 January to 31 December 2018. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 para. 3 [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. **Provisions in the customer lending business**

2. **Presentation of net commission income**

3. **Presentation of intangible assets**

Our presentation of these key audit matters has been structured in each case as follows:

(a) Matter and issue

(b) Audit approach and findings

(c) Reference to further information

Hereinafter we present the key audit matters:

1. Provisions in the customer lending business

(a) Loan receivables amounting to €10,749.9million (44.3 % of total assets) are reported under the "Loans and advances to customers" balance sheet item in the Company's consolidated financial statements. As of 31 December 2018, provisions for the loan portfolio amounting in total to €30.7million were reported in the balance sheet. The measurement of the provisions for the customer lending business is determined in particular by estimates made by the executive directors with respect to future loan defaults, the structure and quality of the loan portfolios and general economic factors. Loans and advances to customers are measured at amortised cost in accordance with the provisions of IFRS 9 to be applied since 1 January 2018. The new impairment rules under IFRS 9 (expected credit loss model) replace the incurred credit loss model applied to date. Risk provisions are presented in a 3-stage model, whereby financial instruments are basically allocated to stage 1. Expected 12-month losses are to be presented for these instruments. If there is a significant increase in the default risk compared to the time of recognition, the amount for the losses expected for the entire residual term (stage 2) is recorded as net loan impairment provision. This also applies to credit-impaired financial instruments (stage 3). The Bank has adjusted its internal models and processes for determining the expected loss according to IFRS 9 in this context. The amounts of the valuation allowances in the customer lending business involve considerable scope for judgment on the part of the executive directors. The valuation parameters applied, which are subject to significant uncertainty, have a significant impact on the recognition respectively the amount of any valuation allowances required. Against this background, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit, we first of all assessed whether the design of the controls in the Company's relevant internal control system was appropriate and tested whether the controls functioned effectively. . We included the business organisation, the IT systems and the relevant measurement models in our assessment. We also assessed among other things whether the models for calculating the expected loss as well as their implementation into the Bank's processes are in line with IFRS 9. In addition, we examined whether significant increases in the default risk were adequately defined by the Bank. We also evaluated the measurement of the customer loan receivables, including the appropriateness of estimated values, on the basis of sample testing of stage 3 loan exposures. For the purposes of this exercise, among other things we reviewed the available documentation of the Company in order to assess the economic circumstances and the recoverability of the related collateral. With respect to real estate as collateral for which the Company has submitted expert appraisals to us, we obtained an understanding of the underlying source data, value inputs used and assumptions made, evaluated those factors critically and assessed whether they lay within a reasonable range. In addition, for the purpose of assessing the valuation allowances applied for stage 1 and 2 exposures, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. On the basis of the audit procedures we carried out, we satisfied ourselves overall that the assumptions made by the executive directors for the purpose of reviewing the recoverability of the loan portfolio are appropriate, and that the processes implemented by the Company are appropriate and effective.

(c) The Company's disclosures regarding provisions for the customer lending business are contained in Note 8 and 37 of the notes to the consolidated financial statements.

2. Presentation of net commission income

(a) Net commission income amounting to €430.7million is reported in the income statement in the Company's consolidated financial statements. This significant item is subject to particular accounting related risk due to the complexity of the systems necessary for accurately recording it, the large number and heterogeneous nature of transactions requiring processing and the earnings contributions in certain areas attributable to transactions involving large non-recurring effects. The large non-recurring effects resulted from individual transactions concluded during the reporting year. Against this background, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit, we firstly assessed the appropriateness and effectiveness of the controls in the business processes for specific products and the relevant controls established within the Company's internal control system for the initial recording of the various transactions in the Company's portfolio management systems through to the reporting of the resulting income and expenses in the general ledger. In addition, we verified, among other things, the calculation and accounting treatment of various components of income and expense on a test basis based on the documents provided to us. Furthermore, we verified the allocation of commission income and expenses to the correct periods as well as the consistency of the methods used by the Company to recognise commission income and expenses. We were able to satisfy ourselves that the systems and processes in place, as well as the established controls, are appropriate overall for the purpose of ensuring that net commission income is presented correctly.

(c) The Company's disclosures regarding net commission income are contained in Note 17 and Note 44 of the notes to the consolidated financial statements.

3. Presentation of intangible assets

(a) Software amounting to €64.8million is reported under the "Intangible assets" item (€69.2million, 0.3 % of total assets) in the company's consolidated financial statements. The group companies capitalise internal and external expenses to a large extent in order to put the software into working condition in particular within the scope of the introduction of the new core bank system as well as the expansion of the system for securities settlement and administration. Intangible assets ready for use are valued at purchase 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. Intangible assets not yet ready for use for which no regular depreciation has yet been recorded have to be subjected to an annual impairment test. Furthermore, a corresponding impairment test is to be carried out for all intangible assets if triggering events exist that there could be a decrease (or increase) in value. Internal and external sources of information are drawn on for this purpose. As there are considerable discretionary powers when assessing the obligation to capitalise internal and external expenses and capitalisation has a significant impact on the earnings situation, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit we assessed, among other things, the processes and controls established within the Company that ensure compliance with the principles for reporting of intangible assets according to international accounting regulations. This also included assessing the details of the guidelines drawn up regarding the recognition of internal and external expenses. In addition, we verified, among other things, the application of the valuation provisions on a test basis based on the documents provided to us. By asking questions were assessed whether there are indications for impairment. We were able to satisfy ourselves that the processes are appropriate overall for the purpose of ensuring that intangible assets are presented correctly.

(c) The Company's disclosures regarding intangible assets are contained in Note 11 and 27 of the notes to the consolidated financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Statement on corporate governance" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the sections "Sustainable corporate governance" and "Employees" of the group management report
- the report on gender equality and equal pay pursuant to § 21 EntgeltTranspG [Transparency of Remuneration Act]

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e para. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 13 June 2018. We were engaged by the supervisory board on 14 June 2018. We have been the group auditor of HSBC Trinkaus & Burkhardt AG, Dusseldorf, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Peter Goldschmidt.

Dusseldorf, 8 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Goldschmidt
Auditor

ppa. Susanne Beurschgens
Auditor

Report of the Supervisory Board

Management

The Supervisory Board met five times during the 2018 financial year. At its meetings conducted during the financial year, the Supervisory Board received comprehensive reports from the Management Board on the performance of business at the Bank, its major subsidiaries and individual business areas. The regular 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), liquidity and capital situation were also presented to the Supervisory Board and the Risk Committee. Furthermore, the Supervisory Board has dealt with the ongoing implementation, large-scale projects, upcoming Brexit and current developments in banking environment (such as Stress Test, Cyber Security, MiFID II, Sanctions, IFRS 9 implementation). The takeover of Commerzbank's securities settlement business, announced in December 2017, was subject of discussion by the Supervisory Board in every meeting. Furthermore, the Supervisory Board received detailed reports on developments and challenges in the divisions Global Liquidity and Cash Management (GLCM), Lending Business; Human Resources, IT and Global Markets

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.

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 twice, the Remuneration Committee four times, the Risk Committee four times, and the Audit Committee five times.

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.

Prior to the respective publications the Audit Committee discussed the 2017 financial statements in two meetings, in one meeting it discussed the draft half year report. 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, the credit risk strategy as well as the market risk strategy (which were also discussed by the plenary meeting of the Supervisory Board) and the development of risk-weighted assets and the upcoming ECB supervision as well as the Brexit. 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

The German Corporate Governance Code was last revised on 7 February 2017 by the Government Commission. In 2018 no new version has been released.

The 2018 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 2018 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 2018, as well as the 2018 Management Report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting on 12 April 2019. The Annual General Meeting, held on 13 June 2018, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") as the auditors for the financial statements and consolidated financial statements. In its meeting on 13 June 2018 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 2018, 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 2018 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 12 April 2019.

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 2018 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

Anna Dimitrova has been appointed as a new member of the Supervisory Board with effect from 1 January 2018.

Dr Hans Michael Gaul resigned from the Supervisory Board on 30 June 2018. The vacancy has been filled with James Emmett joining on 22 November 2018.

Until his retirement on 30 June 2018 Dr Hans Michael Gaul attended all three meetings of the Supervisory Board and one meeting of the Risk Committee and one meeting of the Audit Committee.

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.

Dusseldorf, April 2019

The Supervisory Board

Andreas Schmitz
Chairman

Corporate Governance Report 2018

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 Stock Corporation Act (Aktiengesetz – "AktG") – as shown below, are integral to the corporate culture of HSBC Trinkaus & Burkhardt. An open information policy towards 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 six members at the end of 2018; the Management Board was assisted by two Executive Committee members responsible for the Commercial Banking and Global Banking 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 had four female members as of 31.12.2018. As the largest shareholder (holding a stake exceeding 80 %), HSBC had two representatives on the Supervisory Board in 2018, neither of whom is a German national. LBBW, the second-largest shareholder (holding a stake of just under 19 %), had one representative on the Supervisory Board. Of the eight shareholder representatives, five individuals hold professional experience obtained in senior positions in the banking sector; the three other individuals have each gained their experience in similar positions in other business sectors.

Against this background, the Supervisory Board has formulated the following objectives for its composition, as provided by the German Corporate Governance Code:

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.

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. 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.

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 of 31 December 2018 the Supervisory Board had four female members.

The Supervisory Board has determined a minimum target of 20% female Management Board members. As at 1 January 2018 this target has been achieved with the resignation of a male member from the Management Board, which reduced the number of Management Board members to five. As at 31 December 2018 the Bank has not complied with this target following the expansion of the Management Board by a male member from 1 October 2018. As at 31 December 2018 one of six members of the Management Board is female.

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 12,7% and 13,0%, respectively, by the end of 2018.

Reporting duties regarding transactions in HSBC Trinkaus & Burkhardt shares, as well as rights to those shares pursuant to Section 19 Market Abuse Regulation ("MAR") in accordance with Section 15 of the German Securities Trading Act ("WpHG")

In 2018, no transactions in HSBC Trinkaus & Burkhardt shares, or any rights to those shares which would require a disclosure under Section 19 "MAR" 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 2018 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the Corporate Governance Code.

Declaration pursuant to Section 161 of the Stock Corporation Act (AktG) of the Management Board and the Supervisory Board regarding the German Corporate Governance Code (the "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 2018 still valid version of 7 February 2017, 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 14 June 2017 resolved, with the requisite three-quarters majority, to refrain from disclosing such personalised information.

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 the 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 individualised details of the remuneration of Supervisory Board members (including fees for personal advisory or intermediation services rendered) in the Corporate Governance Report, has not been adopted. The Group Management Report of HSBC Trinkaus & Burkhardt AG contains details regarding the remuneration of Supervisory Board members. Such disclosure would constitute a gross interference with Supervisory Board members' right of privacy – particularly with respect to fees for personal services rendered, such as advisory services – without a strict necessity for such interference.

The Government Commission's Recommendation in section 6.1 is applied, with the clarifying note that parity of information between shareholders, financial analysts and comparable recipients is limited to information which may have an impact on the share price. For the purpose of clearly defining the scope of "passing on of information", expressions of opinion by members of the executive bodies in the press and other media, as well as background discussions with financial analysts and rating agencies, do not constitute "new facts" within the meaning of section 6.1 of the Code.

Varying from section 7.1.2, HSBC Trinkaus & Burkhardt AG will observe the statutory deadlines for the preparation of its consolidated financial statements and interim reports, to enhance its timing flexibility in preparing such statements and reports.

Dusseldorf, February 2019

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.

Dusseldorf, 27 February 2019

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

Fredun Mazaheri **Nicolo Salsano** **Dr. Jan Wilmanns**

Locations

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

Branches

Baden-Baden
Maria-Viktoria-Straße 2
76530 Baden-Baden
Phone: +49 7221 9386-0
Fax: +49 7221 9386-60

Berlin
Joachimsthaler Straße 34
10719 Berlin
Phone: +49 30 88581-0
Fax: +49 30 88581-161

Dortmund
Phönixseestraße 8
44263 Dortmund
Phone: +49 231 950279-0
Fax: +49 231 950279-60

Frankfurt am Main
Taunusanlage 1
60329 Frankfurt am Main
Phone: +49 69 71903-0
Fax: +49 69 71903-33

Hamburg
Gänsemarkt 45
20354 Hamburg
Phone: +49 40 35614-0
Fax: +49 40 35614-152

Hanover
Georgstraße 36
30159 Hanover
Phone: +49 511 54520-0
Fax: +49 511 54520-160

Cologne
Christophstraße 19
50670 Cologne
Phone: +49 221 270578-0
Fax: +49 221 270578-50

Mannheim
P3, 1–3
68161 Mannheim
Phone: +49 621 397243-0
Fax: +49 621 397243-60

Munich
Karl-Scharnagl-Ring 7
80539 Munich
Phone: +49 89 229016-0
Fax: +49 89 229016-70

Nuremberg
Ostendstraße 100
90482 Nuremberg
Phone: +49 911 569897-0
Fax: +49 911 569897-60

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

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

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

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

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

www.hsbc.de

Key Dates

07 June 2019
Annual General Meeting

28 August 2019
Interim Report as at 30 June 2019

Subject to changes

Imprint

HSBC Trinkaus & Burkhardt AG
Königsallee 21/23, 40212 Dusseldorf
Phone: +49 211 910-0
Fax: +49 211 910-616

www.hsbc.de

Layout / Production
MPM Corporate Communication Solutions,
Mainz, Dusseldorf

Photos
Andreas Pohlmann, Munich

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 2018 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 2019. 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 2019 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

	2018*	2017	2016	2015	2014
Total assets	**24,284.1**	**24,278.9**	**23,084.8**	**21,670.5**	**22,146.4**
Assets					
Cash reserve	3,750.5	3,679.3	1,107.3	690.2	616.4
Loans and advances to banks	1,460.7	858.0	1,255.9	1,186.3	1,494.6
Loans and advances to customers	10,749.8	9,348.9	8,457.9	7,848.0	6,509.5
Trading assets	2,876.7	3,702.1	4,462.3	5,930.5	7,327.8
Positive market values from derivative financial instruments	1,265.6	1,420.8	2,099.6	0.0	0.0
Other financial assets mandatorily measured at fair value through profit or loss	192.2	n/a	n/a	n/a	n/a
Financial assets	3,532.1	4,874.2	5,351.0	5,688.6	5,856.5
Share of profit in associates	0.0	0.0	0.0	0.5	20.3
Property, plant and equipment	115.5	111.4	105.3	104.2	97.6
Intangible assets	69.2	29.6	12.5	9.2	10.6
Taxation recoverable	91.9	64.9	50.4	32.0	9.1
current	23.7	7.7	14.0	6.9	1.5
deferred	68.2	57.2	36.4	25.1	7.6
Other assets	179.9	189.7	182.6	181.0	204.0
Liabilities					
Deposits by banks	3,318.9	2,916.4	1,786.2	752.4	875.3
Customer accounts	14,861.4	14,591.7	13,668.7	12,928.8	13,093.9
Certificated liabilities	0.0	0.0	0.0	10.0	10.0
Trading liabilities	1,825.9	2,365.2	2,326.7	5,148.7	5,424.5
Negative market values from derivative financial instruments	978.7	1,248.1	2,173.1	0.0	0.0
Provisions	167.5	177.1	173.2	138.6	167.2
Taxation	31.1	41.9	43.9	35.0	32.2
current	31.1	41.9	43.9	35.0	32.2
deferred	0.0	0.0	0.0	0.0	0.0
Other liabilities	247.0	246.8	235.3	249.0	176.5
Subordinated capital	580.5	395.3	437.7	458.2	458.2
Shareholders' equity	2,273.1	2,296.4	2,240.0	1,949.8	1,908.6
Income statement					
Net interest income	216.1	197.9	211.4	201.7	174.7
Net loan impairment provisions in the lending and securities business	– 5.1	23.9	4.4	0.2	4.0
Share of profit in associates	0.0	0.0	0.0	0.1	0.2
Net fee income	430.7	482.9	474.7	441.2	389.7
Net trading income	72.3	83.9	78.7	75.1	105.8
Net profit from other financial assets mandatorily measured at fair value through profit or loss	– 14.0	n/a	n/a	n/a	n/a
Gains and losses from the disposal of assets measured at amortised cost	0.0	n/a	n/a	n/a	n/a
Income from financial assets	17.8	53.2	24.9	15.0	21.8
Administrative expenses	573.5	559.2	567.9	530.4	494.0
Net other income	16.6	16.5	12.5	14.9	17.6
Pre-tax profit	171.1	251.3	229.9	217.4	211.8
Tax expenses	53.5	78.5	74.4	65.3	67.1
Net profit	117.6	172.8	155.5	152.1	144.7

* The information as at 31 December 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details are available in the Notes to the consolidated financial statements.