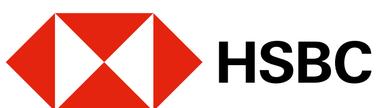
Interim Report
as at 30 June

2018

HSBC Trinkaus & Burkhardt Group



Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01 to 30.06.2018	01.01 to 30.06.2017	Change in %
Income statement in €m			
Operating revenues	361.7	411.5	−12.1
Net loan impairment provision	−2.6	−0.1	> 100.0
Administrative expenses	290.3	285.6	1.6
Pre-tax profit	83.6	153.2	−45.4
Tax expenses	28.6	50.9	−43.8
Net profit	55.0	102.3	−46.2
Ratios			
Cost efficiency ratio of usual business activity in %*	78.2	65.1	–
Return on equity before tax in % (projected for the full year)*	8.3	14.6	–
Net fee income in % of operating revenues	58.3	63.0	–
No of employees at the reporting date	2,978	2,840	4.9
Share information			
Average number of shares in circulation in million	34.1	34.1	0.0
Earnings per share in €*	1.49	2.87	−48.1
Share price at the reporting date in €	67.00	66.00	1.5
Market capitalisation at the reporting date in €m	2,284.7	2,250.6	1.5

	30.06.2018	31.12.2017	Change in %
Balance sheet figures in €m			
Total assets	28,331.6	24,278.9	16.7
Shareholders' equity	2,229.5	2,296.4	−2.9
Regulatory ratios			
Tier 1 capital in €m	1,868.8	1,924.1	−2.9
Regulatory capital in €m	2,136.0	2,208.1	−3.3
Risk-weighted assets in €m	15,826.9	15,210.0	4.1
Tier 1 ratio in %	11.8	12.7	–
Equity ratio in %	13.5	14.5	–

* Previous year adjusted for effects from additional Tier 1 capital.

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Dear Shareholders,

We are investing in modern IT infrastructure, we are hiring new employees, and we are expanding the lending business. In the first half of the year, we further improved the conditions for future growth. Your bank is more relevant in the German market today than it was three years ago. But it costs money to get these ambitious plans up and running.

An eight-digit figure was spent on the digitalisation of business processes alone. One focal point of the investments is the securities settlement business, where HSBC Germany is set to double the number of transactions due to its partnership with Commerzbank, which is already under way.

The high investment expenses and the difficult market environment for the fee-based business had a decidedly negative impact on pre-tax profit in the first six months of the financial year. 2018 has presented your Bank with bigger challenges than originally expected. Pre-tax profit stood at €83.6 million and therefore fell significantly short of the previous year's good result of €153.2 million, which was also influenced by positive non-recurring effects.

We are making substantial investments in our growth because we still see considerable potential for our bank in the German market. This also makes us an increasingly attractive employer. The number of employees at our company has grown by around one-fifth since we launched our growth initiative in 2013. We broke the mark of 3,000 employees for the first time in July.

The lower result for the first six months of the year reflects a high level of investment as well as losses in the traditionally strong fee-based business in particular. Net fee income stood at €210.8 million (previous year: €259.2 million) and was therefore down 18.7 % year on year. Demand for fixed-income products and alternative investments was lower among customers due to concerns about rising interest rates and a weaker global economy. This development had a particularly marked impact on Global Banking & Markets that was only partially offset by higher revenues in fund administration and the custodian bank business. At €42.6 million, net trading income was down slightly from the figure of €45.2 million recorded in the same period of the previous year.

By contrast, net interest income improved slightly to €103.0 million (previous year: €101.5 million). Because it was only possible to replace maturing bonds with bonds offering a comparable risk profile and a far lower coupon, interest income from financial assets fell once again. However, this development was offset by higher interest income from the growing lending business. Loans and advances to customers increased by 11.6 % to €10.4 billion in the first half of the year. The Bank sees further growth potential here, as large portions of the existing credit lines have not yet been exhausted and the Bank's healthy capitalisation enables further lending. Net reversals of €2.6 million were recognised in the income statement as net loan impairment provisions.

Administrative expenses increased to €290.3 million in the first half of 2018 (€285.6 million). Material expenses were up, whereas staff expenses were down slightly.

The result in the Commercial Banking segment, the business with MME corporate clients, was nearly on par with the good level seen in the previous year. Growth in the international interest rate and fee-based business, which includes trade finance, largely compensated for the declines in the domestic business, particularly in clients' foreign exchange transactions. In particular, the factoring business was successful. The new digital receivables finance platform TFiNET, which makes it possible to process purchased receivables quickly and securely, provided a boost. Together with the new digital platform for promissory notes, Synd-X, it is one of two successful examples of how the Bank is further digitalising its processes.

The growth in the international trading business shows that customers appreciate us for our unique selling proposition. Domestic businesses are turning to HSBC Germany, the "Leading International Bank". Few other countries are as internationally connected as Germany. Here at HSBC, we have a network in 66 countries around the world, which account for more than 90 % of global economic output. HSBC is the largest provider of trade finance in the world. Our access to fast-growing markets in Asia and the Middle East allows us to provide companies with a platform for long-term growth.

The Private Banking & Asset Management division was able to increase its net revenues slightly year on year. The business with high-net-worth private clients, which for years was particularly negatively impacted by low interest rates, is growing again today. In the past six months, the division has raised new funds of more than €500 million. Meanwhile, the Bank has yet to pass negative interest rates onto its private clients.

HSBC Germany's total assets stood at €28.3 billion as at mid-2018 following €24.3 billion as at 31 December 2017, corresponding to an increase of €4 billion or 16.7 %. Customer deposits still represent the Bank's main source of refinancing. At €18.4 billion (31 December 2017: €14.6 billion), they accounted for around 65 % of total assets on the balance sheet date. We regard the high level of customer deposits as a clear sign of trust on the part of our clients. Another factor winning clients over is the capital strength of the Bank, which Fitch has confirmed with an AA- (Stable) rating – still the best rating of any private commercial bank in Germany. The Bank's capitalisation remains very comfortable, as indicated by the Tier 1 capital ratio of 11.8 % (12.7 %) and the regulatory capital ratio of 13.5 % (14.5 %). At 8.3 %, return on equity remains above the German industry average despite the decline in income.

With markets appearing volatile and unstable, our look forward at the months ahead is subject to a significantly higher degree of uncertainty than in previous years. One thing we can control, however, is costs, and we have already made adjustments in this respect in recent weeks.

We would like to thank you, our shareholders, for your support, your loyalty and your trust. Even though the difficult market environment had an impact on our figures in the first half of the year, we are continuing to work systematically and consistently on stabilising our revenues. Moving forward, we will still be able to pay you an appropriate dividend and strengthen the Bank's capitalisation by retaining profits.

The quality and loyalty of employees become particularly apparent in challenging times, when ambitious growth plans and market difficulties demand a great deal of us. We have an excellent team in our corner, one that is – in every way – the foundation on which our success is built. That is something of which we are particularly proud. Our employees have earned our recognition and gratitude.

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

Fredun Mazaheri **Dr Jan Wilmanns**

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General economic and sector-related framework

The economy in the eurozone lost momentum at the turn of 2017/2018 and made some year-on-year gains in the first quarter of 2018 of 0.4 %, following on from 0.7 % growth in the three previous quarters. While Spain (+0.7 %) remained the driving force behind the recovery, growth in both of the heavyweights France (+0.2 %) and Germany (+0.3 %) was relatively slow. A slowdown in export growth had an effect on equipment investments, while consumption was robust. In view of the declining optimism at a corporate level, due in part to the rise in global trading tensions, the positive investment trend is expected to level out, but the improvement on the labour market is set to continue. Unemployment was at 8.4 % in May, its lowest level since the fourth quarter of 2008, and in Germany, the rate was even as low as 3.4 % based on International Labour Organization (ILO) standards. In this environment, the eurozone should grow by 2.0 % in 2018 (Germany: 2.0 %), but growth momentum will ease slightly next year to 1.7 % (Germany 1.7 %).

The rise in oil prices in recent months contributed to inflation in the eurozone, reaching the 2 % mark in June 2018 for the first time since early 2017. In the meantime, core inflation reached a low 0.9 %, indicating that the underlying price pressure is still low. The ECB is therefore in two minds, as economic growth is above potential, but losing momentum, and inflationary pressure is still low. In light of this situation, the ECB is only gradually pushing on with the discontinuation of the ultra-expansive monetary policy. At its June meeting, the ECB announced that it will terminate its net bond-buying activities at the end of 2018. From October 2018, the monthly investment volume will halve to €15billion. On the other hand, the central bank announced that, given this framework, the key interest rates will remain at their present levels at least until the end of summer 2019. We therefore only expect the deposit rate to rise by 15 basis points to –0.25 % as of October 2019. In this environment, the yields from long-term bonds should remain at a low level.

After growth cooled slightly at the start of 2018, the US economy should pick up again. We are anticipating GDP growth of 2.8 % for the full year of 2018, and 2.4 % for the coming year. The US economy is set to profit from tax cuts, but these positive effects should start to abate in 2019. With this in mind, the US labour market remains solid, and inflationary pressure has increased. Since the US Federal Reserve has already increased the federal funds rate by 25 basis points twice this year, we anticipate two further increases of 25 basis points by the end of 2018. In addition, the US Federal Reserve is continuing its balance sheet reduction by declining to reinvest some maturing assets, thereby withdrawing liquidity from the capital markets. The emerging markets experienced a solid start to 2018 in economic terms, but volatility on the capital markets has risen. China should grow by 6.6 % or 6.8 % in 2018/2019 in comparison to the previous year.

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

Business performance and situation

Profitability

The HSBC Trinkaus & Burkhardt Group recorded a pre-tax profit of €83.6million in the first half of 2018 (previous year: €153.2million). This corresponds to a significant decline of €69.6million or 45.4 %. This decline is due in part to a loss of earnings in the context of the difficult market situation at present and the associated restraint of our clients on the capital markets, but also to the considerable investments made in our IT infrastructure. In contrast, income from last year includes a one-off disposal gain of €20.3million from the sale of investments no longer required. Net profit amounted to €55.0million and was therefore 46.2 % (or €47.3million) lower than the previous-year figure of €102.3million.

Business performance in the first half of 2018 was largely shaped by a much higher level of uncertainty on the capital markets, not least due to the increasing risk of protectionist measures on the global trading markets. The associated restraint on the part of our clients led to a significant loss of earnings in commission business. The pressure on the conditions both in the lending business and in services persists unabated and competition continues to intensify. At the same time, investments in IT infrastructure to expand our securities processing capacities and to replace our core banking system were the cause of noticeably higher expenses. In addition, the low interest rate environment continues to prove burdensome, due in particular to the falling average returns in our liquidity portfolio. These developments and the fact that the extraordinary income collected in the previous year has been excluded as expected have led to a considerable year-on-year drop in earnings.

Changes in individual items of the income statement:

Net interest income improved slightly at €103.0million compared to the previous year (€101.5million) despite the burdensome low interest rate.

In the client lending business, improved interest income was recorded due to higher volumes – in particular in receivable finance – and slightly better credit margins. On the other hand, interest income from financial assets declined again. Maturing bonds could only be replaced by bonds offering a comparable risk profile with a far lower coupon in the current market environment. Although we were able to work towards better margins in some areas of the deposit business, the low interest rate situation continued to represent a significant burden.

After net income in the amount of €0.1million from the release of net loan impairment provisions in the first six months of the previous year, €2.6million net was released through profit or loss in the reporting period. A net income from the release of net loan impairment provisions of €0.9million was allotted to credit exposures with itemised valuation allowance in the reporting period. The net release of collectively assessed impairments amounted to €1.7million. Our conservative orientation is unchanged in relation to the assessment of default risks. While the economic situation in Germany remains very robust, a small number of problem cases can lead to significant individual impairments as per the forecast report.

Against this background of difficult market conditions and the associated client restraint, the net fee income fell significantly by €48.4million or 18.7 %, from €259.2million to €210.8million.

In the securities portfolio business, we recorded income at a level that was almost the same as the previous year at €54.1million (previous year: €55.6million). The year-on-year increase in expenses for securities accounts and depository fees particularly contributed to this slight drop in income. The number of managed client portfolios continued to rise.

Transactions with securities and other financial instruments recorded a net fee income of €38.7million (previous year: €73.9million). The restraint on the part of our clients was felt in particular in fixed income products and alternative capital investments in the first half of the year.

With competition intensity showing no signs of abating, net fee income from asset management amounted to €37.8million after the first half of the year (previous year: €39.7million).

In the commission business with exchange rates, we recorded €29.7million (previous year: €31.8million), which corresponded to a decline of €2.1million or 6.6 %. This

decline is mainly due to a lower year-on-year requirement on the part of our clients to hedge against exchange rate fluctuations.

In Capital Financing we managed to match the excellent result of the previous year. After the marked increase in net fee income from Capital Financing in the previous year of €11.8million to €29.8million, we can report what we consider an encouraging result, albeit declining, of €26.4million in the reporting period in business with equity-based and debt-based corporate financing transactions.

In terms of net fee income from the lending business, the Bank was unable to generate net fee income in the same scope as the previous year in connection with acquisition finances. The result in the first half of the year amounted to €12.0million and corresponds to a drop of 8.4 % or €1.1million (previous year: €13.1million).

Net fee income from payments and the documentary business fell slightly below the previous-year level by €0.8million at €10.8million (previous year: €11.6million).

Net trading income fell by €2.6million to €42.6million (previous year: €45.2million).

Trading with equity and equity/index derivatives recorded an encouraging result in the current year of €29.3million (previous year: €28.1million).

By contrast, income generated from bonds, money market transactions and interest rate derivatives fell by €2.0million, as it was affected by the movements on the interest rate markets with fairly significant widening spreads in the second quarter of 2018. The Bank recorded income of €11.6million, after €13.6million in the previous year.

Foreign exchange trading declined by €1.4million to €1.8million (previous year: €3.2million). On the one hand, this result shows the continuing decline in the need of our clients to hedge against exchange rate fluctuations. On the other hand, it shows that the increasing shift in foreign exchange trading towards automated platforms is having a negative impact on foreign exchange trading margins. Derivatives held in the banking book recorded a net loss of €0.2million, following a net profit of €1.2million in the previous year.

Due to increased investments in IT infrastructure, total administrative expenses rose by €4.7million or 1.6 % from €285.6million to €290.3million.

Despite an increased number of employees in the first half of 2018, personnel expenses are down €6.1million on the previous year at €168.8million (previous year: €174.9million). The reason for this is the lower expenses for variable remuneration components compared to the previous year.

The other administrative expenses amounted to €110.4million in the current year, which is a noticeable increase compared to the previous year (€100.5million). In addition to a higher bank levy compared to the previous year, this reflects our investments in a modern IT infrastructure in particular, which we are using in part as the basis for future revenues with regard to the expansion of our capacities in the securities processing business.

Depreciation and amortization on property, plant and equipment and intangible assets amounted to €11.1million, which is a year-on-year increase of €0.9million.

Income from financial assets fell sharply by €10.8million to €15.1million compared to the previous year (€25.9million). Income in the first half of the year of €10.4million is the result of the transfer of a large promissory note loan. In the previous year, this item reported a disposal gain in the amount of €20.3million from the sale of specific investments that are no longer required for business operations, so it was expected that the same result would not be repeated.

A net loss from other financial assets requiring measurement at fair value amounted to €5.5million, and this was reported for the first time in the financial year following the adjustment to financial reporting standards. This income resulted from the measurement losses for financial instruments, which were still allocated to financial assets in the previous-year period but, under the new standards, were no longer able to meet the requirements for measurement at fair value recognised directly in equity. This income is particularly due to the movements on the interest rate markets with some significant widening spreads in the second quarter of 2018.

Other operating income amounted to €5.1million (previous year: €6.8million) and primarily included rental income from our property. Other net income amounted to €0.2million compared to €0.1million in the previous year.

Income tax expenditure in the financial year amounted to €28.6million and corresponds to a year-on-year decrease of €22.3million. This equates to a tax rate of 34.2 % after 33.2 % in the previous year.

The cost efficiency ratio was 78.2 % (previous year: 65.1 %).

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

The asset situation

Total assets rose by €4.0billion compared to 31 December 2017 (€24.3billion) to €28.3billion as of the balance sheet date.

Customer accounts remain the Bank's most important source of refinancing and amounted to €18.4billion (31 December 2017: €14.6billion) as of the reporting date, which is around 65 % of the balance sheet total. We regard the size of these deposits as a clear commitment on the part of the Bank's clients to its solid business policy and high credit standing. As part of the HSBC Group, HSBC Trinkaus & Burkhardt AG is still the highest rated private commercial bank in Germany with a "AA– (Stable)" Fitch rating.

The reporting-date-related increase in the cash reserve by €3.2billion to €6.9billion as at 30 June 2018 is associated with the increase in deposits by banks from €2.9billion to €3.3billion and the increase in customer accounts from €14.6billion to €18.4billion.

Trading liabilities and the negative market values of derivatives of €3.5billion remained around the same level as at 31 December 2017 (€3.6billion).

Subordinated capital of €394.5million was slightly lower compared to 31 December 2017 (€395.3million).

Shareholders' equity of €2,229.5million was 2.9 % lower than the previous-year value of €2,296.4million. Due to the low pre-tax profit, the Bank recorded a return on equity of 8.3 %, which was therefore much lower than the previous year (14.6 %) and the 10 %-mark forecast for the year as a whole.

Share capital was €91.4million, as in the previous year. Capital reserves remained unchanged at €720.9million. The dividend for the previous year of €85.2million was distributed in the second quarter. In addition to the regular distribution of dividends, a distribution of around €13.3million was made to the HSBC Group on Additional Tier 1 (AT1) capital. The valuation reserve for debt instruments measured at fair value recognised directly in equity amounted to €36.1million and is €26.8million lower than at 1 January 2018 due to the release of reserves and current market developments. The valuation reserve for equity instruments measured at fair value recognised directly in equity amounted to €7.6million and saw a slight increase of €0.3million compared to the figure as at 1 January 2018. In the previous year, the valuation reserve for debt instruments measured at fair value recognised directly in equity and the valuation reserve for equity instruments measured at fair value recognised directly in equity formed part of the valuation reserve for financial instruments. Further information on this can be found under "Effects of the initial application of IFRS 9 and IFRS 15". The negative reserve for remeasuring the net pension obligation increased by €6.7million to €95.8million due to the slightly lower interest rates and the decline in plan assets compared to the forecast at the start of the year.

Loans and advances to banks of €1.5billion corresponded to an increase of €0.7billion compared to 31 December 2017. This increase mainly resulted from higher loans and advances from cash collateral provided in the derivatives business (€+0.5billion).

Loans and advances to customers rose further by €1.0billion, from €9.4billion to €10.4billion, reflecting the significant contribution being made by our growth strategy with additional market share gains in the corporate banking business. We succeeded in particular in further expanding the business with factoring transactions and syndicated loans. We see further potential for growth since our customers are still only making below-average use of the credit lines granted, and we can also further expand the corporate banking business thanks to good equity availability as part of our "Germany 2020" growth strategy.

Trading assets and the positive market values of derivatives of €4.7billion at the reporting date were €0.4billion lower than at 31 December 2017. The decline in tradable receivables (€–0.6billion) is offset by a rise in bonds and other fixed-interest securities (€0.3billion). A large portion were bonds that were mainly listed and eligible for refinancing with central banks. They were used, among other things, for the posting of collateral for derivatives vis-à-vis the corresponding stock market.

Financial assets of €3.9billion (31 December 2017: €4.9billion) represented a €1.0billion drop. On the one hand, some of the financial instruments categorised up to now as available for sale according to IAS 39 – which do not meet the requirement for recognising fair value changes directly in equity – amounting to €0.3billion were reported under the new balance sheet item, "Other financial assets requiring measurement at fair value through profit or loss" as of 1 January 2018 in line with IFRS 9. Further information on this can be found under "Effects of the initial application of IFRS 9 and IFRS 15". On the other hand, this drop is predominantly due to the sales and maturities of bonds. Most of the financial assets consist of listed bonds eligible for refinancing with central banks and serve as a liquidity cushion. We only have a limited exposure in the European peripheral states with the trading portfolio, with financial assets and with the item "Other financial assets requiring measurement at fair value through profit or loss".

Intangible assets have increased by €15.1million to €44.7million. This increase is due to our investments in the expansion of the securities processing capacities and in the modernisation of our core banking and payment systems.

The financial position

The Group's risk positions to be backed by capital stood at €15,826.9million as at 30 June 2018 (31 December 2017: €15,210.0million), of which risk-weighted assets accounted for €13,574.9million (31 December 2017: €12,863.0million), the market risk equivalent for €814.9million (31 December 2017: €969.0million) and operational risk for €1,437.1million (31 December 2017: €1,378.0million), This results in a Tier 1 capital ratio of 11.8 % (31 December 2017: 12.7 %) and a regulatory capital ratio of 13.5 % (31 December 2017: 14.5 %).

In spring 2016, the Governing Council of the ECB announced a further series of targeted longer-term refinancing operations (TLTRO II) intended to strengthen the transmission of monetary policy by further incentivising bank lending. The legal act relating to TLTRO II was adopted at the end of April 2016. A total of four TLTRO II operations will be conducted at quarterly intervals 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 in the first quarter of 2017 to finance the targeted further growth in lending volumes.

The Bank maintains a strong and liquid balance sheet. We continue to invest a large part of our surplus liquidity above all in eligible bonds issued by German federal states.

Outlook and Opportunities

While growth momentum slowed in the first quarter, the German economy remains solid. This is supportive for the Bank for the time being, above all in view of its growth plans and the expansion of the lending portfolio. The coming months will nevertheless be subject to a higher level of uncertainty than in previous years. This includes the development of the global economy, keeping in mind the smouldering trade disputes between the US, China and the EU. This is causing restraint on the part of the Bank's clients. Other framework conditions will put considerable pressure on the earnings situation in 2018. These include the extremely low interest rates on the money and capital market. Owing to the surplus liquidity provided by the ECB, the Bank's solid deposit base has lost a great deal of its importance and, as we do not want to fully charge our clients the negative deposit interest, our net interest income remains under major pressure. The client-induced deposit surplus, which had previously been one of the strengths of the Bank's balance sheet, continued to grow and is also resulting in interest losses in 2018 due to the ECB measures. In addition, further high-yield bonds in the Bank's liquidity portfolio have matured in recent years and are continuing to mature, 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 revenues from maturity transformation. All these factors are putting significant pressure on net interest income and can only be just about offset by increased lending volume.

Even if our clients use credit lines to a greater extent, we are not expecting the liquidity situation to deteriorate over the course of the year. The clear overfulfilment of the Liquidity Coverage Ratio requirements will continue. The Bank still has access to a very high volume of central bank deposits and has significant scope for refinancing with the ECB.

Against the backdrop of the further growth planned as well as the further increases in regulatory requirements, we are assuming slightly declining capital ratios. We have created scope for establishing further risk-weighted assets as a result. However, we want to use this scope on a very earnings-oriented basis in the client business.

HSBC Germany is involved in the preparations the HSBC Group is making for Brexit. The most important goal is to ensure that all clients are served reliably with a consistently high service level and can continue their banking activities without any problems. We are advising our clients intensively. However, there is still not yet sufficient clarity regarding the timing and the legal arrangements of Brexit. Brexit admittedly presents HSBC with fewer difficulties than other banks based in London. This is because HSBC has two subsidiaries on the continent, HSBC France and HSBC Germany, which meet all regulatory requirements as full-service banks. HSBC is therefore prepared for all scenarios, even a hard Brexit outcome, which has become increasingly unlikely. If customers are no longer allowed to maintain their main link with HSBC in the UK or products are no longer allowed to be offered from London, we will transfer them to Paris in the first instance.

The Bank will continue with the further expansion of its market position in 2018, particularly in Corporate Banking, in accordance with our earnings-oriented growth strategy. The intensified 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 much according to value-oriented standards and demand sufficiently large additional business if the margins are not adequate for appropriate net loan impairment provisions and returns on capital.

Due to low demand for products and lower revenue in institutional banking and with a net interest income only remaining about the same, we are expecting net fee income to fall in 2018. We do not expect to be able to compensate for this decline in full over the coming months. The 2017 consolidated financial statements benefited from the sale of participating interests which are no longer required for operating business activity. This extraordinary income will naturally not be repeated

in 2018, as a result of which income from financial assets will amount to far less than half of the previous-year figure.

Changes to the external statutory and regulatory framework will put pressure on the Bank's earnings situation and lead to significantly higher administrative expenses at the same time. These include, for example, the changes based on MiFiD II as well as the German Investment Tax Reform Act. In addition to significant project expenses, these will result in considerable current expenses as well. This also applies to the implementation of the Global Standards of the HSBC Group to prevent money laundering and terrorist financing.

We have decided to launch significant projects to improve the IT infrastructure, which will go on for several years and also require comprehensive external support in addition to a large number of project staff at the Bank. Furthermore, client-oriented projects are already under way which will lead to higher revenues only with a time delay, but are already putting direct pressure on the cost base in 2018. Administrative expenses will therefore rise at a faster pace than in previous years, even if we restrict the rise in costs more strictly than planned through the change in project management. 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 well above 70 % due to the pressure on margins, the highly burdensome interest income situation, the extraordinary income not being repeated as well as the number and size of the projects.

An expansion strategy means higher risks, but also greater opportunities. This applies above all to the expansion of the lending portfolio with MME corporate clients. However, the mildly positive trend expected in the German economy makes the associated risks appear to be acceptable. We do not expect the net loan impairment provision requirements to be higher than in 2017, although we cannot fully predict the dynamics of collectively assessed impairments under the new IFRS 9 regime with changing framework parameters and portfolio structures. The expansion of the target ratings in the corporate banking business will also involve higher collectively assessed impairments in addition to stronger capital backing with volumes rising. As our portfolio is characterised by differing levels of concentration, even a small number of problem cases can lead to significant individual impairments, which could put pressure on the result beyond what was planned.

As the extraordinary income from the sale of participating interests will not be repeated and owing to the considerable project expenses for the modernisation of infrastructure, we are therefore expecting a decline in pre-tax profit overall for 2018, after several years of substantial earnings growth, which could be in the clear double-digit range. This will force the return on equity before tax below the 10 % mark, but keep it above the average value on the German banking market. This forecast assumes that there are no surprise loan defaults, that the interest, foreign exchange and equity markets are not subjected to any shocks, and that the external influences on the Bank's client-oriented business model remain controllable.

2018 has presented bigger challenges than we had anticipated when we prepared the annual plan. We have risen to these new challenges. The implementation of our adjusted plans should enable us to pay our shareholders an appropriate dividend and further strengthen the Bank's capitalisation by retaining profits in the years ahead as well, despite the decline in pre-tax profit.

Material events occurring after the balance sheet date are listed under "Supplementary Report" in the Other Notes section of the Notes.

Risk Report

Risk management at the HSBC Trinkaus & Burkhardt Group

Principles of risk management policy

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

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

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

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

Internal Capital Adequacy Assessment Process

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

in €million	30.06.2018	31.12.2017
Risk cover funds	**2,381.6**	**2,404.1**
minus regulatory capital requirement	–1,642.9	–1,483.4
Unallocated risk cover funds	**738.7**	**920.7**
Risks		
Credit risks	162.8	147.0
Market risks (incl. illiquid investment risk)	93.7	98.0
Liquidity risk	13.4	20.1
Operational risk	68.0	65.2
Pension risk	1.5	1.5
Business risk	47.9	45.6
Economic capital requirement	**387.3**	**377.4**
Utilisation of unallocated risk cover funds (in %)	**52.4**	**41.0**

Risk categories

Counterparty credit risks

The introduction of the new reporting standard IFRS 9 on 1 January 2018 has set new requirements for, among other things, the recognition of impairments. The incurred loss model for the recognition of net loan impairment provisions, to be applied until the end of 2017, has been replaced by the expected credit loss model.

This alteration affects the treatment and presentation of counterparty credit risks in the Group. The following describes in more detail the parts of the management of counterparty credit risks that are affected by these changes and for which further information is required in accordance with IAS 34 in connection with IFRS 7 in particular. The Interim Report does not cover or only covers to a very limited extent the parts of the management of counterparty risks that are not affected or are only affected to a slight extent, such as the credit risk strategy, the organisation of credit processes and limits and security management, for example. We refer to the comments in the latest Consolidated Financial Statements.

(a) Definition
Counterparty credit risk is understood as the risk of financial loss resulting from the partial or complete default by a client or business partner on a contractually defined performance. Counterparty credit risks exist in particular in the lending business on the balance sheet, in the securities business and derivatives business as well as off balance sheet with contingent liabilities (financial guarantees) and loan commitments. Where this risk relates to circumstances resulting from government action it is known as country risk.

The counterparty credit risk can be divided into credit, issuer, counterparty, investment and viability risks. Credit risk is the risk that a contractual partner cannot meet its obligations under loan agreements. Issuer risk is the risk of the issuer of a security defaulting. This happens above all when an issuer is unable to meet its bonds (interest or repayments) following liquidity difficulties or 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 its own performance was rendered. Counterparty risk is divided into replacement risks and settlement risks. Replacement risk is understood as the risk that performance agreed to be provided at a later date by the counterparty will not be provided and therefore can only result in potentially worse market conditions. Settlement risks refer to the risk of losses that may arise if we trade in advance or problems arise in the process of a transaction. We pay a great deal of attention to these risks despite the extremely short settlement periods. Investment risks are understood as shareholder risks. This comprises potential losses from the provision of capital in the event of the value of the investment deteriorating. Viability or dilution risk describes the risk that the amount of a receivable is reduced by the debtor's cash or non-cash claims.

For balance sheet purposes, we base the definition of default on the definition provided by the Capital Requirements Regulation in order to ensure as uniform and consistent an application as possible throughout the Group. It applies as a standard for all financial instruments and customer groups. According to this, default and therefore an impairment as defined by the financial reporting standards occurs if it is unlikely that the debtor will be able to settle its liabilities in full without having to resort to measures such as the realisation of collateral, or if a significant liability of the debtor is more than 90 days overdue.

(b) Determination of counterparty credit risks
Measuring and limiting counterparty credit risks for the purposes of risk management require the implementation of complex procedures and model valuations. The assessment of the risk associated with a loan exposure changes continually depending on the market developments and expectations, but also on the period of time. The credit risk measurement is always based on assessments of defaults to be expected and the associated losses, as well as correlations of any defaults relating to other debtors.

In principle, the counterparty credit risks are quantified by the determination of the following variables:

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

Probabilities of default are estimated using 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 that 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 "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 determine the expected loss, the exposure at default, probability of default and loss given default are projected forward and offset against each other on a case-by-case basis taking into account unaltered and reliable information about past events, current arrangements and forecasts about future economic conditions. This also takes into account the probability of the exposure not defaulting or being paid back in the meantime. The expected loss occurs on the date of determination as a result of discounting using the original effective interest rate or an approximation of the same.

The expected loss is determined for defaulted exposures individually by applying the present value method relating to the cash flows still to be expected and under consideration of the probability weighted scenarios.

(c) Risk classification systems

The Bank uses a 23-stage internal 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, debtors (receivables purchasing without recourse), banks and financial service providers. These rating systems are supplemented by risk classification systems for high net worth private clients and German federal states. The assessment is always based on the individual borrower and not on the portfolio collectively.

The rating system for clients in the German MME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from 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 companies and their economic environment by the responsible customer service officer and the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

The 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 debtor's 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 risk classification system to classify the credit quality of its high net worth private clients. However, this system is of minor significance as the lending business with high net worth private clients is usually carried out on a collateralised basis.

A borrower rating is generated for German federal states based on the creditworthiness of the respective central government and the legal situation, such as the financial equalisation scheme between the Federal Government and the Länder (Länderfinanzausgleich) in Germany, for example.

The granular 23-stage internal rating system, the "Customer Risk Rating" (CRR), can be summarised in a ten-stage rating system and then transferred to the following groups or quality classes. To classify the internal ratings used by us, the following table shows the credit quality groups and the default risks for the twelve-month probability of default allocated to the CRR.

Credit quality groups	Default risk in line with internal rating system	Ten-stage internal rating system (customer risk rating)	Twelve-month probability of default – range in %
Very good credit quality	Minimum 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	Adequate 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 monitoring	8	15.001 – 99.999
Loan default	Loan default	9	100
		10	100

The following overview shows the corresponding allocation of external ratings (from Standard & Poor's here) for the credit quality groups used relating to the bonds and other fixed-income securities. The internal rating always applies to internal management, however, even if external ratings are available.

Credit quality groups	External rating (Standard & Poor's)		
	Governments and public sector	Banks	Other debtors
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 groups:

- 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 and 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 and 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 (default).

All internal rating models are validated on an annual basis. Additional balance sheet data from an external provider is 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, banks and financial service providers. The Bank takes the standard IRB approach for this, in which the clients' probability of default (PD) is assessed internally. The rating model for MME clients was revised within the scope of the amended business strategy, and is currently in parallel operation with the existing procedure. The loss given default (LGD) and the exposure at default (EAD) are based on standard regulatory parameters. By way of preparation for regulatory approval, the Bank uses internal models to estimate the loss given default (LGD) 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 for regulatory capital backing.

The Risk Control team is responsible for the maintenance, monitoring and further development of the Bank's systems for measuring credit risk, especially the in-house MME rating system.

(d) Maximum default risk

The maximum default risk for financial instruments including loan commitments and financial guarantees as at 30 June 2018 is shown in the following table. The maximum default risk on a specific reporting date corresponds to the book value of the financial assets on the balance sheet, including the reported positive market values of derivative financial instruments on that date. Exchange-traded derivatives are not subject to default risk on account of the margin system, but have been included in the following table in this section for the sake of completeness. Collateral received and other credit enhancements do not include risk-reducing techniques here.

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

	30.06.2018		31.12.2017	
	in €million	in %	in €million	in %
Loans and advances	**12,011.9**	**35.7**	**10,251.4**	**31.1**
to banks	1,537.6	4.6	858.3	2.6
to customers	10,474.3	31.1	9,393.1	28.5
Trading assets	**3,208.7**	**9.5**	**3,702.1**	**11.3**
Bonds and other fixed-income securities	1,497.0	4.4	1,241.5	3.8
Equities and other non-fixed-income securities	633.8	1.9	759.1	2.3
Tradable receivables	1,077.9	3.2	1,701.5	5.2
Positive market values from derivative financial instruments*	**1,482.1**	**4.4**	**1,420.8**	**4.3**
Exchange-traded derivatives	187.0	0.6	163.7	0.5
OTC derivatives	1,293.3	3.8	1,254.3	3.8
Derivatives in hedging relationships	1.6	0.0	2.7	0.0
Derivatives held in the banking book	0.2	0.0	0.1	0.0
Financial assets	**3,935.3**	**11.7**	**4,874.2**	**14.7**
Bonds and other fixed-income securities	3,817.7	11.3	4,670.6	14.1
Investment certificates	0.0	0.0	33.5	0.1
Promissory note loans	92.9	0.3	135.6	0.4
Investments	24.7	0.1	34.5	0.1
Other financial assets requiring measurement at fair value through profit or loss**	**253.3**	**0.8**	**n/a**	**n/a**
Bonds and other fixed-income securities	104.2	0.3	n/a	n/a
Hybrid financial instruments	78.9	0.2	n/a	n/a
Investment certificates	34.4	0.1	n/a	n/a
Equities and other non-fixed-income securities	22.3	0.2	n/a	n/a
Investments	13.5	0.0	n/a	n/a
Contingent liabilities	**2,696.6**	**8.0**	**2,558.5**	**7.7**
Loan commitments	**10,078.0**	**29.9**	**10,208.1**	**30.9**
Total	**33,665.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives as at the reporting date and in the previous-year period have also been taken into account
** Reported under financial assets in the previous year

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

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

	30.06.2018		31.12.2017	
	in €million	in %	in €million	in %
Risk concentration by sector*				
Companies and self-employed professionals	20,871.9	62.1	20,443.8	62.0
Banks and financial institutions	8,424.6	25.0	7,669.1	23.2
Public sector	4,085.5	12.1	4,602.0	13.9
Employed private individuals	283.9	0.8	300.2	0.9
Total	**33,665.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives as at the reporting date and in the previous-year period have also been taken into account.

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.

	30.06.2018		31.12.2017	
	in €million	in %	in €million	in %
Risk concentration by region*				
Domestic	22,244.5	66.2	22,130.1	67.1
Other EU (plus Norway and Switzerland)	8,518.1	25.3	8,225.3	24.9
North America	1,424.5	4.2	1,220.0	3.7
Asia	799.7	2.4	787.5	2.4
Africa	445.8	1.3	365.6	1.1
South America	111.8	0.3	144.5	0.4
Rest of Europe	78.4	0.2	80.4	0.2
Oceania	43.1	0.1	61.7	0.2
Total	**33,665.9**	**100.0**	**33,015.1**	**100.0**

* Exchange-traded derivatives as at the reporting date and in the previous-year period have also been taken into account.

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.

(e) Determining the net loan impairment provision requirement

Up until 31 December 2017, the recognition of impairments was based on a model where only incurred losses led to the recognition of net loan impairment provisions in the balance sheet. This model has fundamentally changed with the introduction of IFRS 9 on the recognition of financial instruments. As of 1 January 2018, the net loan impairment provision requirement is determined and reported in the balance sheet based on the expected loss model.

The regulations on the reporting of impairments under IFRS 9 affect assets (debt) that are carried at amortised cost or reported at fair value directly in equity, showing the changes in value. Loan commitments and financial guarantees are also affected. Impairments are recognised in three stages. Under IFRS 9, a net loan impairment provision in the amount of the twelve-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 it does not meet the default definition on initial recognition (stage 1). A net loan impairment provision in the amount of the lifetime expected credit losses is recognised for financial assets whose credit risk has increased significantly since initial recognition (stage 2) and for credit-impaired assets on the balance sheet date (stage 3). Loans that meet the default definition at the time of addition (purchased or originated credit-impaired, POCI), are recognised at the time of initial application after deducting full lifetime expected credit losses.

We use quantitative and qualitative criteria to assess whether a financial instrument shows an increased default risk since the time of addition. In addition to qualitative criteria, such as principal or interest arrears of more than 30 days and inclusion in the list of exposures subject to closer monitoring, the primary quantitative indicator for the transition from stage 1 to stage 2 is the relative change in the expected probabilities of default since initial acquisition of the respective financial instrument.

In quantitative terms, we determine the changing credit risks of individual financial instruments on the basis of cumulative probabilities of default. To determine whether the credit risk has increased since the time of addition, we compare the average one-year expected probability of default at the time of addition with that of the time of reporting (residual average term forward point-in-time PD). The calculations take into account unaltered and reliable information about past events, current arrangements and forecasts about future economic conditions in the form of different economic scenarios, with weighting depending on their expected probability of occurrence. The credit risk is considered to have increased significantly enough to move the financial instrument from stage 1 to stage 2 if set thresholds have been reached or exceeded. The thresholds are based on expert opinions and are validated at least once a year.

In qualitative terms, all credit exposures included in the list of exposures subject to closer monitoring (watch-worry-monitor list) and assigned to the Watch or Worry categories cease to belong to stage 1 and are transferred to stage 2 or stage 3 as applicable. This concerns all exposures that need to be transferred from standard credit management to special management because there are confirmed indicators of early risk detection, e.g. negative industry developments or negative reporting about a borrower, showing early signs of increased credit risks.

An additional safeguard mechanism (backstop) for determining a significant rise in credit risk is that the interest payments or principal repayments are more than 30 days overdue. We generally do not use the option to refute this assumption as presented in the financial reporting standards. We also do not make use of the low credit risk exemption.

Moving from stage 3 to a better stage is only possible if the default definition is continuously not met for a period of up to twelve consecutive months.

Counterparty risks are assessed based on appropriate and reliable information about past events, current arrangements and forecasts about future economic conditions, provided this is relevant to the assessment of expected loan defaults. This usually takes into account three future scenarios. The main scenario presents the average development expected from the economic conditions. There are two other scenarios: one where the economic conditions develop more positively than expected (upside scenario), and one where the development is more negative than expected (downside scenario). If circumstances require it, additional scenarios could be developed and used to assess the counterparty risks. However, as a rule, we assume that the potential non-linear development of economic conditions can be adequately depicted using these three scenarios.

Overall, the methodical, procedural and systems-based implementation of the new provisions on the recognition of impairments in the amount of the expected credit losses is also largely based on the expertise within the HSBC Group. The scenarios used to measure risks are created using different forecasts from independent sources (e.g. central banks, Oxford Economics) by a team of experts at the HSBC Group, incorporating independent, external consultants. Its relative significance and weighting is then determined in order to determine next steps. The scenarios are usually based on a forecast time limit of five years from the balance sheet date (point in time approach). The main scenario is developed in two steps. First, central economic figures, specifically GDP growth, the unemployment rate, inflation and the rise in property prices are determined for the key HSBC markets. A large number of other figures are derived from this basis in a second step, using established economic and industry-specific models, before ultimately modelling the expected development required for measuring the risk, taking into account country-specific characteristics. The upside and downside scenarios are drawn up on this basis. The opportunities and risks of a potential positive or negative development are generally oversubscribed, and potential, non-linear developments based on model calculations, empirical figures and risk assessments are taken into account.

The main scenario is updated every quarter, and the two other scenarios are updated annually, unless macroeconomic or political developments require more frequent updates.

The forecasts for future economic conditions affect the determination of PDs and LGDs. When determining PDs, the forecast for the economic development is reflected in the probabilities of default of certain sectors in the respective countries. When determining LGDs, this affects the recoverability of collateral and its application possibilities in particular.

(f) Credit quality of financial instruments

The following overviews show the credit quality of the financial instruments subject to the IFRS 9 impairment regulations, categorised into three stages and the related net loan impairment provisions as of the reporting date of 30 June 2018 and the initial application date for IFRS 9, 1 January 2018. They also show the credit quality of the debt instruments measured at fair value through profit or loss at the respective reporting dates.

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

Financial instruments measured at amortised cost:

30.06.2018

in €million	Gross book value/nominal amount						Net loan impairment provision	Net book value/ nominal amount
Balance sheet item/stage	Very good credit quality	Good credit quality	Moder-ate credit quality	Low credit quality	Loan default	Total		
Loans and advances to banks	1,258.4	153.1	124.1	2.0	0.0	1,537.6	0.0	1,537.6
Stage 1	1,258.4	150.8	122.7	0.0	0.0	1,531.9	0.0	1,531.9
Stage 2	0.0	2.3	1.4	2.0	0.0	5.7	0.0	5.7
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	2,792.4	4,281.4	3,172.4	112.3	115.8	10,474.3	36.4	10,437.9
Stage 1	2,785.5	4,232.8	2,900.8	89.2	0.0	10,008.3	1.2	10,007.1
Stage 2	6.9	48.6	271.6	23.1	0.0	350.2	2.2	348.0
Stage 3	0.0	0.0	0.0	0.0	115.8	115.8	33.0	82.8
Contingent liabilities	960.8	943.3	764.2	16.0	12.3	2,696.6	8.3	2,688.3
Stage 1	959.9	938.8	678.6	8.4	0.0	2,585.7	0.1	2,585.6
Stage 2	0.9	4.5	85.6	7.6	0.0	98.6	0.1	98.5
Stage 3	0.0	0.0	0.0	0.0	12.3	12.3	8.1	4.2
Loan commitments	4,737.3	3,855.9	1,406.4	52.0	26.4	10,078.0	2.4	10,075.6
Stage 1	4,737.3	3,810.8	1,074.4	17.3	0.0	9,639.8	0.7	9,639.1
Stage 2	0.0	45.1	332.0	34.7	0.0	411.8	0.7	411.1
Stage 3	0.0	0.0	0.0	0.0	26.4	26.4	1.0	25.4
Total	**9,748.9**	**9,233.7**	**5,467.1**	**182.3**	**154.5**	**24,786.5**	**47.1**	**24,739.4**

01.01.2018

in €million	Gross book value/nominal amount						Net loan impairment provision	Net book value/ nominal amount
Balance sheet item/stage	**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
Stage 1	621.3	170.9	57.2	0.0	0.0	849.4	0.1	849.3
Stage 2	1.5	1.2	3.2	3.0	0.0	8.9	0.0	8.9
Stage 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
Stage 1	2,508.9	3,466.3	2,595.4	32.8	0.0	8,603.4	1.2	8,602.2
Stage 2	45.9	130.3	436.9	66.4	0.0	679.5	3.4	676.1
Stage 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
Stage 1	859.0	846.9	761.9	17.3	0.0	2,485.1	0.1	2,485.0
Stage 2	1.1	13.2	33.3	8.6	0.0	56.2	0.1	56.1
Stage 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
Stage 1	4,503.7	4,022.5	1,188.5	37.5	0.0	9,752.2	0.5	9,751.7
Stage 2	4.0	65.8	313.6	57.5	0.0	440.9	1.5	439.4
Stage 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 measured at fair value recognised directly in equity:

30.06.2018

in €million	Fair value						Net loan impairment provision
Balance sheet item/stage	**Very good credit quality**	**Good credit quality**	**Moderate credit quality**	**Low credit quality**	**Loan default**	**Total**	
Financial assets	3,397.7	392.3	120.6	0.0	0.0	3,910.6	0.5
Stage 1	3,392.3	374.0	93.7	0.0	0.0	3,860.0	0.3
Stage 2	5.4	18.3	26.9	0.0	0.0	50.6	0.2
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

01.01.2018

in €million	Fair value						Net loan impairment provision
Balance sheet item/stage	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
Stage 1	4,128.0	277.9	118.6	0.0	0.0	4,524.5	0.2
Stage 2	10.5	14.7	0.0	0.0	0.0	25.2	0.2
Stage 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:

30.06.2018

in €million	Fair value					
Balance sheet items	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total
Trading assets	2,282.6	38.6	253.7	0.0	0.0	2,574.9
Other financial assets requiring measurement at fair value through profit or loss	3.6	47.4	53.2	0.0	0.0	104.2

01.01.2018

in €million	Fair value					
Balance sheet items	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 requiring measurement at fair value through profit or loss	3.8	81.7	53.3	0.0	0.0	138.8

The following tables show the credit quality of financial instruments as at 31 December 2017. Since these tables are subject to the IAS 39 provisions they are not broken down per stage. The credit quality of bonds and other fixed-interest securities were generally assessed using external ratings (as a rule Standard & Poor's), provided these were regularly available.

31.12.2017

in €million	Gross book value/nominal amount						Net loan impairment provision		Net book value/ nominal amount
Balance sheet items	**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 €million	Fair value					
Balance sheet items	**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

(g) Development of the net loan impairment provision
Effects of the introduction of IFRS 9

Compared to the IAS 39 provisions, the initial application of the new impairment regulations under IFRS 9 at the transition date of 31 December 2017/1 January 2018 resulted in a reduction in net loan impairment provisions of €13.1million in total.

The decline in net loan impairment provisions in the transition from IAS 39 to IFRS 9 is largely attributable to the conceptual conversion of the calculation method from the "through the cycle" approach to the "point in time" approach against the background of the positive economic conditions in Germany on the reporting date. When calculating the collectively assessed impairments under IAS 39, we used probabilities of default (PD) and loss given default (LGD) originating from regulatory requirements. Accordingly, the previous calculation method is based on an approach in which the current economic influences tend to be reduced and the focus is on the long-term view over an economic cycle instead. Under IFRS 9, the emphasis is on current, cyclical considerations, 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 the transition, the expected credit losses average significantly below the previous underlying loan defaults. This resulted in considerably lower net loan impairment provision requirements for stage 1 and stage 2 financial instruments under the initial application of IFRS 9 compared with IAS 39. There were no significant changes in net loan impairment provisions for stage 3 financial instruments.

Development of net loan impairment provisions in the reporting year

The net loan impairment provision in comparison with the gross book values or nominal amounts of credit exposures in existence as at 30 June 2018 and 1 January 2018 respectively is shown in the following tables including the stage classification. For more information on the development calculations for net loan impairment provisions, please refer to the "Net loan impairment provision" section of the Notes.

30.06.2018	Gross book value/nominal amount in €million				Net loan impairment provision in €million				Net loan impairment provision coverage in %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks	1,531.9	5.7	0.0	1,537.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	10,008.3	350.2	115.8	10,474.3	1.2	2.2	33.0	36.4	0.0	0.6	28.5	0.3
Contingent liabilities	2,585.7	98.6	12.3	2,696.6	0.1	0.1	8.1	8.3	0.0	0.1	65.9	0.3
Loan commitments	9,639.8	411.8	26.4	10,078.0	0.7	0.7	1.0	2.4	0.0	0.2	3.8	0.0
Total	**23,765.7**	**866.3**	**154.5**	**24,786.5**	**2.0**	**3.0**	**42.1**	**47.1**	**0.0**	**0.3**	**27.2**	**0.2**

01.01.2018	Gross book value/nominal amount in €million				Net loan impairment provision in €million				Net loan impairment provision coverage in %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 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**

30.06.2018	Fair value in €million				Net loan impairment provision in €million				Net loan impairment provision coverage in %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets	3,860.0	50.6	0.0	3,910.6	0.3	0.2	0.0	0.5	0.0	0.4	0.0	0.0

01.01.2018	Fair value in €million				Net loan impairment provision in €million				Net loan impairment provision coverage in %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
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 subsection of accounting policies, which is subject to significant estimation uncertainties and discretionary decisions. This means that in the event that the excellent forecasts in place at present for the German economy deteriorate significantly, there will be considerable additional requirement for net loan impairment provisions.

Market risks

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

in €million		2018		
		30.06.	Maximum	Average
Trading book	Interest rate risk	0.6	1.0	0.7
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.6	0.9	0.6
	Credit spread risk	1.5	1.8	1.6
	Commodities risk	0.1	0.2	0.0
	Diversification	1.3	1.6	1.3
	Overall risk	**1.6**	**2.0**	**1.7**
Banking book	Interest rate risk	4.5	4.5	4.3
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.7	0.8	0.7
	Credit spread risk	2.5	2.6	2.2
	Commodities risk	(–)	(–)	(–)
	Diversification	2.7	3.4	2.8
	Overall risk	**5.1**	**5.1**	**4.5**

in €million		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**

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

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

No negative back-testing anomalies were found in the first half of 2018.

Liquidity risks

(a) Definition

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

(b) Internal liquidity risk management and liquidity cushion

The Liquidity Coverage Ratio (LCR) is a ratio used by banks for evaluating short-term liquidity risk and puts the portfolio of highly liquid financial assets in relation to the overall net outflow of funds in the next 30 days. The LCR calculated for internal risk management as at 30 June 2018 was 146.6 % (31 December 2017: 113.7 %).

	Liquidity coverage ratio	
in %	**30.06.2018**	**31.12.2017**
As at the balance sheet date	146.6	113.7
Minimum	131.0	113.7
Maximum	148.7	153.5
Average	141.6	137.1

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

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

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

The Bank regularly makes sure that the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be accessed and realised at any time. As at 30 June 2018 we had deposited assets with a collateral value of €1.94billion at the Bundesbank (31 December 2017: €2.51billion), giving us potential access to central bank loans of this amount. To counteract this reduced amount, we increased the average volume in our central bank account. 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 the first half of 2018.

Overall picture of the risk situation

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

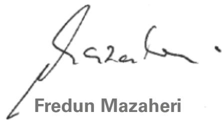
Düsseldorf, 21 August 2018

The Management Board

Carola Gräfin v. Schmettow

Dr Rudolf Apenbrink

Paul Hagen


Fredun Mazaheri

Dr Jan Wilmanns

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Consolidated Balance Sheet

Assets in €m	(Notes)	30.06.2018*	31.12.2017	Change	
				in €m	in %
Cash reserve		6,931.0	3,679.3	3,251.7	88.4
Loans and advances to banks	(8), (19)	1,537.6	858.0	679.6	79.2
Loans and advances to customers	(9), (19)	10,437.9	9,348.9	1,089.0	11.6
Trading assets	(10)	3,208.7	3,702.1	−493.4	−13.3
Positive market values of derivative financial instruments	(11)	1,482.1	1,420.8	61.3	4.3
Other financial assets requiring measurement at fair value through profit or loss	(12)	253.3	n/a	n/a	n/a
Financial assets	(13), (19)	3,935.3	4,874.2	−938.9	−19.3
Property plant and equipment		115.6	111.4	4.2	3.8
Intangible assets		44.7	29.6	15.1	51.0
Taxation recoverable		71.1	64.9	6.2	9.6
of which current		6.0	7.7	−1.7	−22.1
of which deferred		65.1	57.2	7.9	13.8
Other assets		314.3	189.7	124.6	65.7
Total assets		**28,331.6**	**24,278.9**	**4,052.7**	**16.7**

* Figures as at 30 June 2018 prepared under IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

Liabilities in €m	(Notes)	30.06.2018*	31.12.2017	Change	
				in €m	in %
Deposits by banks	(14)	3,329.2	2,916.4	412.8	14.2
Customer accounts	(15)	18,385.9	14,591.7	3,794.2	26.0
Trading liabilities	(16)	2,252.2	2,365.2	–113.0	–4.8
Negative market values of derivative financial instruments	(17)	1,280.9	1,248.1	32.8	2.6
Provisions	(18), (19)	175.8	177.1	–1.3	–0.7
Taxation		32.9	41.9	–9.0	–21.5
of which current		32.9	41.9	–9.0	–21.5
of which deferred		0.0	0.0	0.0	–
Other liabilities		250.7	246.8	3.9	1.6
Subordinated capital		394.5	395.3	–0.8	–0.2
Shareholders' equity		2,229.5	2,296.4	–66.9	–2.9
Share capital		91.4	91.4	0.0	0.0
Capital reserve		720.9	720.9	0.0	0.0
Additional Tier 1 capital		235.0	235.0	0.0	0.0
Retained earnings		1,233.5	1,257.5	–24.0	–1.9
Valuation reserve for financial instruments (IAS 39)		n/a	79.2	n/a	n/a
Valuation reserve for debt instruments measured at fair value through other comprehensive income (IFRS 9)		36.1	n/a	n/a	n/a
Valuation reserve for equity instruments measured at fair value through other comprehensive income (IFRS 9)		7.6	n/a	n/a	n/a
Valuation reserve for the remeasurement of the net pension obligation		–95.8	–89.1	–6.7	7.5
Valuation reserve from currency conversion		0.8	1.5	–0.7	–46.7
Total equity and liabilities		**28,331.6**	**24,278.9**	**4,052.7**	**16.7**

* Figures as at 30 June 2018 were prepared in accordance with IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

Consolidated Statement of Comprehensive Income

Consolidated Income Statement

in €m	(Notes)	01.01 to 30.06.2018*	01.01 to 30.06.2017	Change	
				in €m	in %
Interest income from financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income		149.9	146.2	3.7	2.5
Interest income from other financial assets requiring measurement at fair value through profit or loss		3.9	n/a	n/a	n/a
Interest income		153.8	146.2	7.6	5.2
Interest expense		50.8	44.7	6.1	13.6
Net interest income	(1)	103.0	101.5	1.5	1.5
Net loan impairment provision for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income	(2)	–2.6	–0.1	–2.5	> 100.0
Fee income		311.9	352.3	–40.4	–11.5
Fee expenses		101.1	93.1	8.0	8.6
Net fee income	(3)	210.8	259.2	–48.4	–18.7
Net trading income	(4)	42.6	45.2	–2.6	–5.8
Net income from other financial assets requiring measurement at fair value through profit or loss		–5.5	n/a	n/a	n/a
Profit and loss from the sale of financial assets measured at amortised cost		0.0	n/a	n/a	n/a
Income from financial assets		15.1	25.9	–10.8	–41.7
Administrative expenses	(5)	290.3	285.6	4.7	1.6
Net Other Income	(6)	5.3	6.9	–1.6	–23.2
Pre-tax profit		83.6	153.2	–69.6	–45.4
Tax expenses		28.6	50.9	–22.3	–43.8
Net profit		**55.0**	**102.3**	**–47.3**	**–46.2**

* Figures as at 30 June 2018 prepared under IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

Earnings per share in €*	**01.01 to 30.06.2018**	**01.01. to 30.06.2017***
Undiluted	1.49	2.87
Diluted	1.49	2.87
Average number of shares in circulation in million	**34.1**	**34.1**

Reconciliation from Net Income to Comprehensive Income

in €m	**01.01. to 30.06.2018****	**01.01 to 30.06.2017**
Net profit	55.0	102.3
Gains/losses after tax reclassified in the income statement	−27.5	−15.8
of which from financial instruments (IAS 39)	n/a	−14.4
of which from debt instruments measured at fair value through other comprehensive income (IFRS 9)	−26.8	n/a
of which from currency conversion	−0.7	−1.4
Gains/losses after tax not reclassified in the income statement	−6.4	13.4
of which from equity instruments measured at fair value through other comprehensive income (IFRS 9)	0.3	n/a
of which from the remeasurement of the net pension obligation	−6.7	13.4
Other income for the period	−33,9	−2,4
Comprehensive income	**21.1**	**99.9**

* Previous year adjusted for effects from additional Tier 1 capital.
** Figures as at 30 June 2018 were prepared in accordance with IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

Consolidated Statement of Changes in Equity

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 translation	Consolidated equity
As at 31.12.2016	**91.4**	**720.9**	**235.0**	**1,170.8**	**115.6**	**−97,4**	**3.7**	**2,240.0**
Distributed profit				−86,1				−86,1
Addition from net profit				102.3				102.3
Capital increase								0.0
Other income for the period					−14,4	13.4	−1,4	−2,4
Other changes								0.0
As at 30.06.2017	**91.4**	**720.9**	**235.0**	**1,187.0**	**101.2**	**−84,0**	**2.3**	**2,253.8**

* incl. consolidated profit

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 through other comprehensive income (IFRS 9)	Valuation reserve for equity instruments measured at fair value through other comprehensive income (IFRS 9)	Valuation reserve for the remeasurement of the net pension obligation	Valuation reserve from currency translation	Consolidated equity
As at 31.12.2017	**91.4**	**720.9**	**235.0**	**1,257.5**	**79.2**	**0.0**	**0.0**	**−89,1**	**1.5**	**2,296.4**
Adjustments due to IFRS 9 initial application				19.5	−79,2	62.9	7.3			10.5
As at 01.01.2018	91.4	720.9	235.0	1,277.0	0.0	62.9	7.3	−89,1	1.5	2,306.9
Distributed profit				−98.5**						−98,5
Addition from net profit				55.0						55.0
Capital increase										0.0
Other income for the period						−26,8	0.3	−6,7	−0,7	−33,9
Other changes										0.0
As at 30.06.2018	**91.4**	**720.9**	**235.0**	**1,233.5**	**0.0**	**36.1**	**7.6**	**−95,8**	**0.8**	**2,229.5**

* incl. consolidated profit
** incl. distribution to additional Tier 1 capital

Condensed Consolidated Cash Flow Statement

in €m	2018	2017
Cash and cash equivalents as at 01.01	**3,679.3**	**1,107.3**
Cash flow from operating activities	3,381.7	3,856.6
Cash flow from investing activities	−31,5	0.6
Cash flow from financing activities	−98,5	−127,1
Cash and cash equivalents as at 30.06	**6,931.0**	**4,837.4**

Selected Notes to the Condensed Consolidated Interim Financial Statements

This Interim Report for the HSBC Trinkaus & Burkhardt Group as at 30 June 2018 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. The report takes particular account of the requirements of IAS 34 relating to interim financial reporting. Furthermore, the report satisfies the requirements of a half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). The Interim Report was reviewed by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. Please refer to the Auditor's Report section for the results of this review.

When drawing up this Interim Report, including the comparable figures for the prior-year periods, we generally applied the same accounting, valuation and consolidation methods as in the consolidated financial statements as at 31 December 2017. However, we also incorporated the following changes resulting from the the mandatory application as at 1 January 2018 of requirements concerning the recognition of financial instruments (IFRS 9) and accounting for revenue from contracts with customers (IFRS 15).

Another change compared to the previous year is that Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf, Germany, is no longer included in the consolidated financial statements as an independent entity, as it was merged with the consolidated entity HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf, Germany, effective as at 1 January 2018.

Adjustments to accounting methods in the presented reporting periods

IFRS 9 defines how to recognise and measure financial instruments and replaces IAS 39 effective as at 1 January 2018. This standard introduces new regulations concerning the classification and measurement of financial instruments, the balance-sheet presentation of expected counterparty credit risks (impairments) and hedge accounting. In accordance with the requirements of IFRS 9, we have applied this standard at the point of initial application, 1 January 2018. We have exercised our right to present the effects of the initial application of IFRS 9 separately instead of adjusting the previous year's figures. As a result, the accounting and measurement methods pursuant to IAS 39 presented in the consolidated financial statements as at 31 December 2017 continue to apply to financial instruments.

IFRS 15 defines how and when revenue from contracts with customers is to be recognised as income. IFRS 15 replaces a number of different IFRS regulations and interpretations that previously governed the recognition of income and provides a single, principles-based five-step model to be applied to all contracts with customers. In our initial application of IFRS 15, we have exercised our right to apply it from the point of initial application, 1 January 2018. We have not made any adjustments to the comparison period, in accordance with the transition principles. Therefore, the accounting and measurement methods presented in the most recent consolidated financial statements in the Note "Reporting of Income and Expenses" apply to the comparison period.

The accounting and measurement methods used to recognise financial instruments pursuant to IFRS 9 and to recognise revenue from contracts with customers pursuant to IFRS 15 and applied by the Group from 1 January 2018 are presented below.

Other standards and interpretations that became mandatory in the EU as of 1 January 2018 were taken into consideration in the preparation of the Interim Report and did not have any effect on the HSBC Trinkaus & Burkhardt consolidated financial statements. This concerns the following amendments: IFRS 2 'Share-based Payments' – classification and measurement of share-based payment transactions; IFRS 4 – application of IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'; IAS 40 'Investment Property' – 'Transfers to or from investment property classification'; the annual improvements to IFRS (2014 - 2016 cycle) with regard to the amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards'; and IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

Classification and measurement of financial instruments

Recognition

Financial instruments are recognised in the balance sheet for the first time when the Group becomes a contractual party to the corresponding agreement, in accordance with IFRS 9. 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 that would have resulted in financial instruments being recognised in the amount of the residual risk item in the reporting period.

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 and securities lending transactions remain with the transferor.

Reporting

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

Valuation approach	Classes pursuant to IFRS 7/ balance sheet items	Measurement category pursuant to IAS 39	Measurement classes pursuant to IFRS 9
Measurement at amortised cost	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)	Fair-value measurement through profit or loss (HfT)
	Positive/negative market values of derivative financial instruments	Held for trading (HfT)	Fair-value measurement through profit or loss (HfT)
	Other financial assets that must be measured at fair value through profit or loss		Fair-value measurement through profit or loss (mFVPL)
	Financial assets	Available for sale (AfS)	Fair-value measurement through other comprehensive income with/without recycling (FVOCIwR/FVOCIwoR)

We report on risks resulting from financial instruments within the scope of the Risk Report as part of the audited consolidated financial statements.

Measurement

All financial instruments are measured at fair value at acquisition. This generally equates to the transaction price upon initial recognition.

In addition, we allocate all financial instruments at initial recognition to the categories as defined in IFRS 9, which are decisive for the subsequent measurement. The classification of financial assets into measurement classes under IFRS 9 is based on the business model underpinning the management of these assets (business model criterion) and the structure of the contractual cash flows of the respective financial asset (cash flow criterion). Financial liabilities are allocated to measurement classes on the basis of whether the liabilities were incurred in relation to trading activities or rather whether they were designated for fair value measurement through profit or loss upon initial recognition.

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

Measurement at amortised cost

Both of the following conditions must be met for financial assets to be allocated to the class for financial instruments measured at amortised cost:

1. The financial asset is held within a business model whose objective is to hold financial assets to collect their contractual cash flows ("hold" business model).

2. The contractual terms of the financial asset give rise, on specified dates, to cash flows that solely represent payments of principal and interest on the principal amount outstanding.

The HSBC Trinkaus & Burkhardt Group's loans and advances in its traditional lending business meet these criteria. We report these financial instruments in loans and advances to banks and loans and advances to customers. We report interest from the lending business in net interest income. Discounts and premiums are recorded using the effective interest method. Impairments on loans and receivables are reported in net loan impairment provisions and reduce the balance-sheet book value accordingly. If a particular financial instrument is sold prematurely (such as in the case of a transfer), despite the general intention to hold such financial assets, we record the resulting profit or loss in the item profit and loss from the sale of financial assets measured at amortised cost.

We continue to allocate all financial liabilities that have not been incurred in relation to trading activities to this measurement class. We record these financial liabilities in deposits by banks, customer accounts or subordinated capital. We report interest from these liabilities in net interest income. Discounts and premiums are recorded 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.

Fair-value measurement through other comprehensive income

Both of the following conditions must be met for financial assets to be allocated to the class for financial instruments measured at fair value through other comprehensive income.

1. The financial asset is held within a business model whose objective is to hold and sell the financial assets ("hold and sell" business model).

2. The contractual terms of the financial asset give rise, on specified dates, to cash flows that solely represent payments of principal and interest on the principal amount outstanding.

At the HSBC Trinkaus & Burkhardt Group, this concerns the bonds held as financial investments and for the purposes of safeguarding liquidity, other interest-bearing securities and promissory note loans. We record these debt instruments in financial assets. We report interest from these financial assets in net interest income. Financial assets are subsequently measured at fair value. The same measurement methods are applied to the fair-value measurement of these financial instruments as the methods applied to financial instruments measured at fair value through profit or loss (see following section). Changes in value compared to amortised cost are recognised directly in shareholders' equity through other comprehensive income in the valuation reserve for debt instruments measured at fair value through other comprehensive income. Any impairment provisions defined in IFRS 9 to be applied to these amounts do not have any effect on the recognition on the balance sheet at fair

value, as the net loan impairment provision for these financial instruments is recognised as an expense in the form of an adjustment to the valuation reserves recognised within shareholders' equity. When these financial assets are sold, the valuation reserves reported within shareholders' equity up until this point are reclassified into the income statement (recycling) and reported in income from financial assets.

In addition, we allocate certain equity instruments to the measurement class for financial assets measured at fair value through other comprehensive income in accordance with a special provision defined in IFRS 9. In this case, we exercise our right to voluntarily and irrevocably allocate equity instruments not held for trading to this measurement class on a case-by-case basis as at the point of addition or as at the point of IFRS 9 initial application. We report profit distributions from these equity instruments held as strategic investments in net interest income. Subsequent measurement takes place at fair value, with the changes in value being recognised directly in shareholders' equity through other comprehensive income in the valuation reserve for equity instruments measured at fair value through other comprehensive income. When these financial assets are sold, we report the valuation reserves recognised in shareholders' equity up until that point in retained earnings as part of shareholders' equity and do not recycle these valuation reserves to the income statement.

Financial liabilities cannot be allocated to the measurement class of financial instruments measured at fair value through other comprehensive income.

Fair-value measurement through profit or loss

All other financial instruments are to be recognised at fair value through profit or loss. This concerns financial assets that are attributable to a business model other than the "hold" or "hold and sell" business models as well as financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. We report all non-derivative financial instruments that are acquired or entered into with the intention of selling or buying back at short notice or that are part of a portfolio of uniquely identifiable and jointly managed financial instruments, in relation to which there has been short-term profit taking in the recent past, as trading assets or trading liabilities. In addition, we allocate to this measurement class all derivatives, including embedded derivatives that are required to be separated, and all non-derivative financial assets that are not attributable to trading activities but do not meet the cash flow requirement. On the balance sheet, we recognise these amounts as positive or negative market values from derivative financial instruments or as other financial assets that must be measured at fair value through profit or loss.

Subsequent measurement of financial instruments in this class 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 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 provided these gains and losses result from held-for-trading financial instruments or derivatives. When it comes to gains and losses from non-derivative financial instruments measured at fair value through profit or loss but not attributable to trading activities, current interest is recognised in net interest income and other components are recognised in net profit from other financial assets that must be measured at fair value through profit or loss.

We continue to not exercise our right to irrevocably allocate financial instruments to the measurement class for financial instruments measured at fair value through profit or loss at the point of addition (fair-value option).

Reclassifications

Reclassifications of financial liabilities are not permitted. A financial asset is to be reclassified if the business model under which the financial asset is held changes. No reclassifications of financial assets took place in the reporting period.

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 the obligation and the present value of the premium correspond to one another.

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

The Group does not know in detail whether, when and in what amount financial guarantees and loan commitments will be utilised. Financial guarantees and loan commitments are subject to the following impairment provisions of IFRS 9.

Hedge accounting

We exercise our option under IFRS 9 and continue to apply the provisions of IAS 39 to hedge accounting. In this respect, the accounting and measurement methods presented in the consolidated financial statements as at 31 December 2017 continue to apply under IFRS 9.

Impairments and net loan impairment provisions

Assets (debt) that are carried at amortised cost or reported at fair value through other comprehensive income showing the changes in value are affected by the regulations on impairment under IFRS 9. This also includes trade receivables, receivables from leases and receivables from customer contracts pursuant to IFRS 15. Under the regulations of IFRS 9, risk provisioning requirements are calculated and recognised on the balance sheet on the basis of the expected credit loss model.

Impairments are recognised pursuant to IFRS 9 on the basis of a three-stage model. According to this model, a net loan impairment provision is recognised up to the amount of the twelve-month expected credit losses for financial instruments whose credit risk on the balance sheet date has not increased significantly since initial recognition and which did not meet the definition of default at initial recognition (stage 1). In the case of financial assets whose credit risk has increased significantly since initial recognition (stage 2) and financial assets that have been defaulted by the balance sheet date, a net loan impairment provision in the amount of the lifetime expected credit losses (stage 3) is recognised. Loans that meet the definition of default at the point of addition (purchased or orginated credit-impaired, POCI) are to be reported less lifetime expected credit losses at initial recognition.

Our definition of default, including for balance-sheet purposes, is based on the regulatory definition of default as per the Capital Requirements Regulation. According to this definition, a default and therefore also an impairment under accounting regulations exists if the borrower is unlikely to pay its credit obligations in full without recourse to actions such as realising security or if the borrower is past due more than 90 days on any material credit obligation.

Indications of irrecoverability and therefore the impairment of financial assets include the following:

- significant financial difficulties on the part of the borrower
- breach of contract, such as default or delinquency on payments of interest and principal
- increased probability that the borrower will enter insolvency or another kind of restructuring procedure
- the loss of an active market for the financial assets as a result of financial difficulties
- concessions made by the lender to the borrower for financial or legal reasons relating to the borrower’s financial difficulties that the borrower would not otherwise make

The primary indicator used to judge whether a financial instrument is subject to an increased risk of default compared to the point of initial recognition is the relative change in the forecast probability of default since the initial recognition of the respective financial instrument. Other indicators are if the financial instrument is past due by more than 30 days and if it has been added to the watch-worry list.

We do not exercise the option under IFRS 15 to apply simplified procedures to calculate and recognise net loan impairment provisions for financial instruments subject to low credit risk (low credit risk exemption) and for trade receivables, receivables from leases and receivables from customer contracts.

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 (stage 3) on the one hand and collective impairments/provisions on the other (stages 1 and 2).

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 "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 and/or impaired are classified in CRR 9 and 10. Expected losses for each individual credit facility are estimated on the basis of the information available, in consideration of collateral and other agreements and applying probability-weighted scenarios. The present value of expected payments calculated in this manner is compared with the book value of the credit facility. The net loan impairment provision thus created fully covers the expected credit loss. The borrower's country of domicile is also relevant. In the case of the impairment of a financial asset, interest income is only reported as revenue as the original effective interest rate on the gross book value of the respective financial asset less the net loan impairment. The Group did not hold any financial assets that met the default definition upon initial recognition (POCI) during the reporting period.

In addition, we also form collective impairments/provisions for credit facilities allocated to stages 1 and 2. As part of this process, receivables and off-balance-sheet transactions with comparable default risks (portfolio) are grouped together. Collective impairments are calculated as a product of the book value or rather the credit equivalence amount, the probability that the exposure will default within one year (stage 1) or within the residual term (stage 2), the individual loss ratio that takes into consideration appropriate and reliable information on past events, current circumstances and forecasts about future economic frameworks. In the case of stage 1 and stage 2 financial instruments, interest and impairments are recognised independently of one another.

When it comes to financial assets accounted for at fair value directly in equity, we also calculate and report the net loan impairment provision depending on the stage to which the financial asset is attributable pursuant to IFRS 9. Unlike the financial assets recognised at amortised cost, the net loan impairment provision does not reduce the book value of the financial instrument. These kinds of financial assets continue to be recognised at fair value. In fact, the net loan impairment provision is recognised as an expense and as an adjustment within shareholders' equity to the valuation reserve reported for these financial assets.

We refer to the presentation of counterparty credit risks in the Risk Report as part of the audited consolidated financial statements with regard to the management of counterparty credit risks and the implementation of impairment provisions pursuant to IFRS 9 in the Group's methods, processes and systems.

If all efforts to asserts our claims have failed and there is no real prospect of outstanding amounts being repaid, we derecognise financial assets that are in default in full or in part against the existing net loan impairment provision and, in severe cases, also as a direct impairment against the income statement. This can be assumed if, once all realistic possibilities to reclaim outstanding amounts have been utilised, no further efforts are being made in this regard and no realisable collateral exists.

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 other financial assets that must be recognised 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 recognises dividends through profit or loss at the time of the legal creation of the dividend entitlement. The sole exceptions to this are capital repayments of equity instruments measured at fair value directly in equity, which must be recognised directly in equity.

The net loan impairment provision for financial assets measured at amortised cost and at fair value directly in equity encompasses the effects of the application of the impairment provisions of IFRS 9. This also includes any direct write-offs and recoveries on loans and advances previously written off.

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 and from other services are reported under net fee income. The recognition of revenue from the provision of services is based on the provisions of IFRS 15 in the current reporting period. According to the five-stage model that applies to revenue recognition, we allocate corresponding (individual) transaction prices – on a pro rata basis if necessary – to our customer contracts or rather the individual performance obligations therein and recognise the corresponding revenue through profit or loss once we fulfil our corresponding performance obligation(s). If customers pay fees in advance that concern a performance obligation for a defined period of time in the future, we recognise the received fee payment in fee income on a pro rata basis over the term of the corresponding agreement. These forms of advance payments constitute contract liabilities as defined in IFRS 15, which we report in other liabilities. We recognise fees that relate to services we have already performed in full at the beginning of a transaction but that are only paid over a defined period of time in the future as revenue in fee income on the basis of the present value and immediately after the service provision. Pursuant to IFRS 15, outstanding fee payments constitute receivables, as the payments are solely dependant on the passage of time.

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

The results from the measurement and sale of non-derivative financial instruments that are measured at fair value through profit or loss but are not attributable to trading activities are reported in net profit from other financial assets that must be measured at fair value through profit or loss.

We report gains and losses from the sale of financial assets measured at amortised cost in the item of the same name in the income statement.

Income from financial assets includes income from the sale of debt instruments measured at fair value directly in equity up until the point of sale.

Effects of the initial application of IFRS 9 and IFRS 15

The initial application of the new provisions as at 1 January 2018 resulted in an increase in shareholders' equity of €10.5million at the HSBC Trinkaus & Burkhardt Group. This was primarily due to the decline in net loan impairment provisions of €13.1million due to the changes to impairment requirements as well as an associated decline of €4.1million in deferred taxation recoverable.

The initial application of the new requirements under IFRS 15 concerning the recognition of revenue from contracts with customers did not have any material effect on the HSBC Trinkaus & Burkhardt Group, as the fees in customer agreements are, in many areas, linked to the provision of the service. In areas in which service provision and fees (if applicable also only in respect of parts of the service provision or rather parts of the fee) are not linked, revenue was already recognised in line with the service provision (if necessary on a pro rata basis) under previous principles.

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

In view of the classification and measurement of financial instruments, the Group's traditional lending business is generally also recognised at amortised cost in full under IFRS 9 ("hold" business model). The majority of financial instruments previously allocated to the category "available for sale" pursuant to IAS 39 have been attributed to the "hold and sell" business model and continue to be reported on the balance sheet in financial assets. Some of the financial instruments previously classified as "available for sale" do not meet the criteria for the recognition of fair value changes through other comprehensive income, so these are measured at fair value through profit or loss in accordance with IFRS 9. We report these financial instruments in "other financial assets that must be measured at fair value through profit or loss". The initial application of IFRS 9 did not result in any changes to the financial instruments measured at fair value through profit or loss pursuant to IAS 39, as these financial instruments are allocated to other business models and/or the respective financial instrument does not meet the cash flow criterion as defined by IFRS 9. We exercise our option under IFRS 9 to recognise certain equity instruments at fair value through other comprehensive income; as at the point of the initial application of IFRS 9, these equity instruments had a total value of €24.4million. The application of IFRS 9 did not have any major effect on the recognition of the HSBC Trinkaus & Burkhardt Group's financial liabilities. We continue to not exercise our option to designate financial assets and financial liabilities at fair value through profit or loss.

The initial application of the impairment principles under IFRS 9 resulted in the Group's risk provisioning requirements declining by €13.1million (before taxation recoverable). The effects of these requirements on the Group are presented in the "Counterparty credit risk" section of the Risk Report in the consolidated interim management report, together with an explanation of the effects of initial application.

The new principles regarding hedge accounting under IFRS 9 did not have any effect on the Group, as we exercise our option pursuant to IFRS 9 to continue applying IAS 39 requirements to hedge accounting. At the point of IFRS 9 initial application, existing hedges were carried over.

In the course of the initial application of IFRS 9, we adjusted the balance sheet structure and also the statement of income in line with the amended accounting principles for financial instruments. This had a corresponding effect on the presentation of the notes to the consolidated financial statements and the management report. As, in line with the transition principles of IFRS 9, the comparison period was not adjusted retroactively, the financial instruments reported in this Interim Report are recognised in accordance with the principles of IFRS 9, whereas the financial instruments relating to the comparison period were recognised according to IAS 39.

The effects of the initial application of IFRS 9 on the consolidated balance sheet as at the point of transition from IAS 39 to IFRS 9 are presented in the following tables:

Assets in €m	Recognition under IAS 39	Recognition under IFRS 9	Comments	Book values pursuant to IAS 39 on 31.12.2017	Reclassifications	Remeasurements	Book values pursuant to IFRS 9 on 01.01.2018
Cash reserve	n/a	AC		3,679.3			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 of derivative financial instruments	HfT	HfT		1,420.8			1,420.8
Other financial assets that must be measured at fair value through profit or loss	n/a	mFVPL	(a)	n/a	264.5		264.5
Financial assets	AfS	FVOCIwR/ FVOCIwoR	(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			189.7
Total assets				**24,278.9**	**0.7**	**3.6**	**24,283.2**

Assets in €m	Recognition under IAS 39	Recognition under IFRS 9	Comments	Book values pursuant to IAS 39 on 31.12.2017	Reclassifications	Remeasurements	Book values pursuant to IFRS 9 on 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 of 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)	2,296.4	0.7	9.8	2,306.9
Share capital				91.4			91.4
Capital reserve				720.9			720.9
Additional Tier 1 capital				235.0			235.0
Retained earnings			(a) (c) (d)	1,257.5	10.5	9.0	1,277.0
Valuation reserve for financial instruments (IAS 39)				79.2	−79.2		n/a
Valuation reserve for debt instruments measured at fair value through other comprehensive income (IFRS 9)			(a) to (d)	n/a	62.1	0.8	62.9
Valuation reserve for equity instruments measured at fair value through other comprehensive 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**

(a) The portion of the financial instruments previously categorised as available for sale under IAS 39 that does not meet the criteria for the recognition of fair value changes through other comprehensive income is reported in the new balance sheet item "other financial assets that must be measured at fair value through profit or loss" according to IFRS 9 (€264.5million). The valuation reserves recognised on these financial instruments under IAS 39 within shareholders' equity in a separate sub-item, totalling €11.1million, were reclassified to retained earnings. In addition, retained earnings in the amount of €0.6million were reclassified to the valuation reserves for equity instruments measured at fair value through other comprehensive income in order to account for taxation recoverable.

(b) A financial instrument with a net book value of €2.9million previously recognised in loans and advances to customers was reclassified into financial assets recognised at fair value through other comprehensive income. At the same time, the fair value measurement of this financial instrument as at the point of initial application resulted in a €0.5million increase in valuation reserves for financial instruments measured at fair value through other comprehensive income.

(c) The initial application of the impairment principles under IFRS 9 resulted in a decline in net loan impairment provisions and a corresponding increase in the balance sheet item loans and advances to customers by €7.1million, an increase in loans and advances to banks by €0.2million and a decline in provisions by €6.2million. In addition, a net loan impairment provision of €0.4million was recognised in relation to financial assets as at the point of initial application. Considering the €4.2million decline in deferred taxation receivable, retained earnings rose by €9.0million and the valuation reserve for debt instruments measured at fair value through other comprehensive income declined by €0.1million.

(d) As a result of the introduction of IFRS 9, we now draw distinctions within shareholders' equity between the underlying instrument types in relation to valuation reserves for financial instruments measured at fair value through other comprehensive income. As a result, the valuation reserves for debt instruments and equity instruments are reported separately.

The following table shows the effects of the initial application of the impairment principles under IFRS 9 as at the point of initial application in relation to net loan impairment provisions:

in €m	Recognition under IAS 39	Recognition under IFRS 9	Net loan impairment provision pursuant to IAS 39/IAS 37 on 31.12.2017	Reclassifications	Remeasurements	Net loan impairment provision pursuant to IFRS 9 on 01.01.2018
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	FVOCIwR/ FVOCIwoR	9.4	0.7	0.4	10.5
Provisions 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 exercise its option to apply the transition principles defined in Article 473a Capital Requirements Regulation and does not distribute the effects of IFRS 9 initial application.

Adjustments to accounting methods for future reporting periods

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

The new accounting standard IFRS 16, which applies to the recognition of leases, was issued in January 2016. It is obligatory for financial years that start on or after 1 January 2019. The new standard replaces the existing standard IAS 17 as well as the related interpretations. According to the new provisions, a lessee will be required in future to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments at the same time. Partial exemption applies to leases with a term of less than twelve months and where the underlying asset is of low value. In an approach similar to the existing provisions,

the lessee will be required to classify the leases as financing or operating leases and recognise them accordingly. IFRS 16 also includes provisions for additional disclosures in the Notes as well as for sale-and-leaseback transactions. The HSBC Trinkaus & Burkhardt Group is largely affected as a lessor by the new provisions for reporting leases. Against the backdrop of the current realignment of the real estate and property, plant and equipment portfolio, and the associated conclusion of new leases, the impact on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed further.

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

The amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation are obligatory in the EU from 1 January 2019. At the current time, these amendments have little to no effect on our consolidated financial statements. The same applies to all amendments to other standards and interpretations that we have chosen to apply prematurely and that have yet to be endorsed by the EU.

This concerns the following amendments: IAS 28 'Investments in Associates' – long-term interests in associates and joint ventures; IAS 19 'Employee Benefits' – plan amendments, curtailments, and settlements; annual improvements to IFRS, 2015-2017 cycle, with amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes', IAS 23 'Borrowing Costs' and IFRIC 23 'Tax Uncertainties' and the 'Amendments to References to the Conceptual Framework in IFRS Standards' as published by the IASB.

The preparation of IFRS financial statements requires management to provide assessments, assumptions and estimates. This is necessary with regard to the determination of the fair values of financial instruments, the classification in fair value levels 1–3, the impairment of financial instruments and other assets, the recognition of provisions (including provisions for current taxes) and other obligations, the net loan impairment for financial assets measured at amortised cost and financial assets measured at fair value directly in equity, 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 management's assessment. Estimates are subject to forecast uncertainties. In order to keep these to a minimum, available objective information as well as experience is drawn upon as much as possible. The estimation procedures used are reviewed regularly and adjusted if necessary.

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

1 Net Interest Income

in €m	01.01 to 30.06.2018*	01.01 to 30.06.2017
Interest income	**153.8**	**146.2**
From loans and advances to banks	7.3	4.1
Money market transactions	4.6	2.8
Other interest-bearing receivables	2.7	1.3
Reverse repos	0.0	0.0
From loans and advances to customers	110.0	105.7
Money market transactions	17.6	16.6
Other interest-bearing receivables	92.4	89.1
From financial assets	23.9	34.3
Interest income	22.8	31.3
Dividend income	0.5	2.1
Income from subsidiaries	0.6	0.9
From other financial assets that must be measured at fair value through profit or loss	3.9	n/a
Interest income	2.3	n/a
Dividend income	1.4	n/a
Income from subsidiaries	0.2	n/a
From other	8.7	2.1
Interest expense	**50.8**	**44.7**
From deposits by banks	21.3	21.7
Money market transactions	1.8	1.4
Other interest-bearing deposits	19.5	20.3
From customer accounts	20.4	13.5
Money market transactions	9.3	6.9
Other interest-bearing deposits	11.1	6.6
From subordinated capital	7.0	8.0
From other	2.1	1.5
Net interest income	**103.0**	**101.5**

* Figures as at 30 June 2018 prepared under IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

The Bank paid negative interest in the amount of €12.3million as at 30 June 2018 (H1 2017: €8.9million). Of the amount of paid interest, €12.3million concerns our account held with the Bundesbank (H1 2017: €8.6million). Part of our customer accounts are deposited at the Bundesbank as surplus liquidity with negative yields. These losses are not included in the aforementioned payment of negative interest. In addition, the Bank recognised negative interest of €16.9million (H1 2017: €14.2million). This solely consists of interest income from financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income.

2 Net Loan Impairment and Other Credit Risk Provisions

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Additions	2.5	0.0
Reversals	5.1	1.6
Direct write-offs	0.0	1.7
Recoveries on loans and advances previously written off	0.0	0.2
Total	**–2.6**	**–0.1**

3 Net Fee Income

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Securities portfolio transactions	54.1	55.6
Securities transactions	38.7	73.9
Asset management	37.8	39.7
Foreign exchange trades	29.7	31.8
Capital financing	26.4	29.8
Lending	12.0	13.1
Domestic/international payments	10.8	11.6
Other services	1.3	3.7
Total	**210.8**	**259.2**

Provision income consists of the following:

in €m	01.01 to 30.06.2018
Income from securities portfolio transactions	112.1
Income from securities transactions	69.4
Income from asset management	40.5
Income from foreign exchange trades	32.7
Income from capital financing	28.6
Income from lending business	14.7
Income from domestic/international payments	12.3
Income from other services	1.6
Total	**311.9**

4 Net Trading Income

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Equities and equity/index-linked derivatives	29.3	28.1
Bonds and interest rate derivatives	11.6	13.6
Foreign exchange	1.8	3.2
Derivatives held in the banking book	−0.2	1.2
Hedge result	0.1	−0.9
Total	**42.6**	**45.2**

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

5 Administrative Expenses

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Staff expenses	168.8	174.9
Wages and salaries	136.0	142.7
Social security costs	18.8	17.9
Expenses for retirement pensions and other employee benefits	14.0	14.3
Other administrative expenses	110.4	100.5
Depreciation of property, plant and equipment and of intangible assets	11.1	10.2
Total	**290.3**	**285.6**

6 Net Other Income

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Other operating income	10.4	9.2
Other operating expenses	5.3	2.4
Net other operating income	**5.1**	**6.8**
Other income	0.3	0.3
Other expenses	0.1	0.2
Other net income	**0.2**	**0.1**
Net other income	**5.3**	**6.9**

7 Customer Groups*

in €m		PB & AM	CMB	GB&M	Central/ Consoli-dation	Total
Net interest income	30.06.2018	4.5	53.1	33.8	11.6	103.0
	30.06.2017	4.4	54.9	34.5	7.7	101.5
Net loan impairment provision for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income	30.06.2018	0.0	−1.2	−0.1	−1.3	−2.6
	30.06.2017	−0.2	−0.9	1.1	−0.1	−0.1
Net interest income after net loan impairment provision	30.06.2018	4.5	54.3	33.9	12.9	105.6
	30.06.2017	4.6	55.8	33.4	7.8	101.6
Net fee income	30.06.2018	47.8	26.2	136.7	0.1	210.8
	30.06.2017	48.8	28.9	181.6	−0.1	259.2
Operating trading income	30.06.2018	1.3	2.0	34.9	4.6	42.8
	30.06.2017	0.0	0.0	37.0	7.0	44.0
Net income after net loan impairment provision	30.06.2018	53.6	82.5	205.5	17.6	359.2
	30.06.2017	53.4	84.7	252.0	14.7	404.8
Administrative expenses	30.06.2018	45.8	55.5	173.2	15.8	290.3
	30.06.2017	41.1	55.5	176.3	12.7	285.6
of which depreciation and amortisation	30.06.2018	0.5	0.7	1.5	8.4	11.1
	30.06.2017	0.5	0.6	1.3	7.8	10.2
Net income from other financial assets that must be measured at fair value through profit or loss	30.06.2018	0.0	0.0	0.0	−5.5	−5.5
	30.06.2017	n/a	n/a	n/a	n/a	n/a
Profit and loss from the sale of financial assets measured at amortised cost	30.06.2018	0.0	0.0	0.0	0.0	0.0
	30.06.2017	n/a	n/a	n/a	n/a	n/a
Income from financial assets	30.06.2018	2.4	3.7	9.3	−0.3	15.1
	30.06.2017	1.5	2.5	7.5	14.4	25.9
Result from trading with derivatives held in the banking book	30.06.2018	0.0	0.0	0.0	−0.2	−0.2
	30.06.2017	0.0	0.0	0.0	1.2	1.2
Net other income	30.06.2018	0.8	1.4	3.3	−0.2	5.3
	30.06.2017	0.8	1.4	4.8	−0.1	6.9
Pre-tax profit	**30.06.2018**	**11.0**	**32.1**	**44.9**	**−4.4**	**83.6**
	30.06.2017	**14.6**	**33.1**	**88.0**	**17.5**	**153.2**
Tax expenses	30.06.2018	3.5	10.1	14.1	0.9	28.6
	30.06.2017	4.8	11.0	29.3	5.8	50.9
Net profit	**30.06.2018**	**7.5**	**22.0**	**30.8**	**−5.3**	**55.0**
	30.06.2017	**9.8**	**22.1**	**58.7**	**11.7**	**102.3**

* Figures as at 30 June 2018 were prepared in accordance with IFRS 9 and IFRS 15. The figures and explanations referring to the comparison period have not been adjusted and are stated in accordance with the accounting principles valid on the stated reporting date. Please refer to the selected notes to the condensed consolidated interim financial statements for further information.

Increasing political risks due to the smouldering trade conflicts between the US, China and the EU and as a result of the uncertainty surrounding the Brexit process and the rise in oil prices dampened the economic situation in Germany more significantly than originally expected in the first half of 2018. Central banks also trimmed back their expansive monetary policies somewhat, reducing the level of support to economic development by cutting their bond-buying activities. The resulting fears of rising interest rates around the world, coupled with uncertainty over the future growth of the global economy, have fostered a sense of reticence among many customers. This particularly affected certain fixed-income and equity investments, which were significantly more in demand in the previous year. The ECB's ongoing low-interest policy with negative deposit rates has had a stronger impact recently than in the past. At the same time, expenses associated with the implementation of regulatory requirements have remained high. Start-up costs linked to some major projects have also negatively impacted the Bank's earning situation this year. The decline in gains after tax against this backdrop is therefore primarily attributable to the Global Banking & Markets and Central segments.

The Commercial Banking segment, on the other hand, was able to almost match its solid previous-year result. The Private Banking & Asset Management segment was not able to repeat its result of the previous year, as the increase in Private Banking business was unable to compensate for the decline in Asset Management. The Central segment primarily includes interest income from money market trading and regulatory costs, including the increased expenses for the banking levy. In the previous year, profit from the sale of the investment in a financing company was also reported here in income from financial assets, which was not repeated this year as expected. Even though we continue not to pass on any of the ECB's negative market rates to private customers, the Global Private Banking & Asset Management segment was the only segment to improve its net income year on year. Increased fee income from customer lending business was offset by lower management and distribution fees in business involving mutual funds.

In the Commercial Banking segment, growth in international interest and commission business was not quite able to fully compensate for declines in domestic business, particularly in relation to customers' foreign exchange transactions. The Global Banking & Markets segment was most affected by investors exercising caution. Income from fund administration and custodian bank business may have increased, but this was due to the higher volume of assets under administration and assets under custody in the previous year. However, these increases in income were unable to make up for the significant declines in fee income from transaction-related equity and fixed-income business and in investment banking, which was bolstered by a higher number of individual transactions.

Once again, high staff and non-staff expenses were incurred in relation to the implementation of new regulatory requirements and compliance with existing regulations. The same applies to efforts to maintain the high level of the HSBC Global Standards to prevent financial crime. In 2018, costs were incurred for the first time in relation to the launch of several major multi-year projects for the introduction of the new core banking system and the the takeover of Commerzbank's securities settlement operations. Administrative expenses still only rose marginally year on year thanks to strict cost discipline across all areas of the Bank.

8 Loans and Advances to Banks

in €m	30.06.2018	31.12.2017
Current accounts	877.5	525.7
Money market transactions	10.0	143.6
of which overnight money	0.0	0.0
of which term deposits	10.0	143.6
Other receivables	161.0	177.2
Collateral items in the derivatives trading business	489.1	11.8
Total (before net loan impairment provision)	**1,537.6**	**858.3**
Net loan impairment provision for loans and advances	0.0	0.3
Total (net)	**1,537.6**	**858.0**

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

9 Loans and Advances to Customers

in €m	30.06.2018	31.12.2017
Current accounts	2,406.1	1,575.0
Money market transactions	782.9	957.1
of which overnight money	86.9	23.9
of which term deposits	696.0	933.2
Loan accounts	6,594.1	6,060.2
Other receivables	651.8	627.7
Collateral items in the derivatives trading business	39.4	173.1
Total (before net loan impairment provision)	**10,474.3**	**9,393.1**
Net loan impairment provision for loans and advances	36.4	44.2
Total (net)	**10,437.9**	**9,348.9**

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

10 Trading Assets

in €m	30.06.2018	31.12.2017
Bonds and other fixed-income securities	1,497.0	1,241.5
Equities and other non-fixed-income securities	633.8	759.1
Tradable receivables	1,077.9	1,701.5
Total	**3,208.7**	**3,702.1**

11 Positive Market Values from Derivative Financial Instruments

in €m	30.06.2018	31.12.2017
Positive market value of derivatives	1,480.3	1,418.0
of which OTC derivatives	1,293.3	1,254.3
of which exchange-traded derivatives	187.0	163.7
Derivatives in hedging relationships	1.6	2.7
Derivatives held in the banking book	0.2	0.1
Total	**1,482.1**	**1,420.8**

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

in €m	30.06.2018	31.12.2017
Bonds and other fixed-income securities	104.2	n/a
Hybrid financial instruments	78.9	n/a
Investment certificates	34.4	n/a
Equities and other non-fixed-income securities	22.3	n/a
Investments	13.5	n/a
Total	**253.3**	**n/a**

13 Financial Assets

in €m	30.06.2018	31.12.2017
Bonds and other fixed-income securities	3,817.7	4,670.6
Investment certificates	0.0	33.5
Promissory note loans	92.9	135.6
Investments	24.7	34.5
Total	**3,935.3**	**4,874.2**

14 Deposits by Banks

in €m	30.06.2018	31.12.2017
Current accounts	922.0	371.7
Money market transactions	1,585.5	1,635.8
of which overnight money	0.0	0.0
of which term deposits	1,585.5	1,635.8
Other liabilities	634.3	597.3
Collateral items in the derivatives trading business	187.4	311.6
Total	**3,329.2**	**2,916.4**
of which domestic banks	2,208.2	2,263.2
of which foreign banks	1,121.0	653.2

15 Customer Accounts

in €m	30.06.2018	31.12.2017
Current accounts	14,820.6	12,222.9
Money market transactions	2,930.6	1,995.0
of which overnight money	694.1	724.5
of which term deposits	2,236.5	1,270.5
Savings deposits	1.7	1.7
Other liabilities	332.1	330.4
Collateral items in the derivatives trading business	300.9	41.7
Total	**18,385.9**	**14,591.7**
of which domestic customers	16,841.8	13,584.6
of which foreign customers	1,544.1	1,007.1

16 Trading Liabilities

in €m	30.06.2018	31.12.2017
Promissory note loans	287.7	288.2
Bonds	660.2	751.8
Certificates and warrants	1,291.2	1,280.9
Delivery obligations arising from securities sold short	13.1	44.3
Total	**2,252.2**	**2,365.2**

17 Negative Market Values of Derivative Financial Instruments

in €m	30.06.2018	31.12.2017
Negative market value of derivatives	1,260.6	1,200.6
of which OTC derivatives	1,008.8	1,011.3
of which exchange-traded derivatives	251.8	189.3
Derivatives in hedging relationships	20.3	47.2
Derivatives held in the banking book	0.0	0.3
Total	**1,280.9**	**1,248.1**

18 Provisions

Provisions in the Group developed as follows:

in €m	30.06.2018	31.12.2017
Provisions for pensions and similar obligations	87.8	72.8
Provisions for credit risks	10.7	18.8
Other provisions	77.3	85.5
Total	**175.8**	**177.1**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in the first half of 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	0.2	0.0	0.0	0.0	0.2
Pensions paid	–4.8	–0.5	0.0	0.0	–5.3
Additions (incl. projected income)	8.5	0.7	1.0	–0.1	10.1
Transfer/other	0.0	–0.1	0.3	0.1	0.3
Changes recognised directly in equity arising from the remeasurement of the net pension obligation	9.7	0.0	0.0	0.0	9.7
As at 30.06	**77.3**	**1.0**	**5.0**	**4.5**	**87.8**

Other provisions

Other provisions developed as follows in the first half of 2018:

in €m	As at 01.01.2018	Utilisation	Reversals	Additions	Com-pounding	Transfers/ other	As at 30.06.2018
Provisions for trade payables for software and hardware	25.5	3.2	7.4	1.6	0.0	0.0	16.5
Provisions for expected interest on retrospective tax payments	9.9	0.0	0.0	0.0	0.2	0.0	10.1
Provisions for trade payables for goods and services	15.4	2.1	0.0	4.8	0.0	0.0	18.1
Provisions for goodwill and legal risks	11.9	0.9	0.0	0.2	0.0	0.0	11.2
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg	11.9	0.9	0.0	0.0	0.2	0.0	11.2
Provisions for restoration obligations	5.0	0.0	0.0	0.0	0.0	0.0	5.0
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	1.0	0.2	0.5	0.0	0.0	2.3
Total	**85.5**	**8.1**	**7.6**	**7.1**	**0.4**	**0.0**	**77.3**

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

No material legal disputes and associated litigation risks were pending as at 30 June 2018.

19 Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment provision for loans and advances

in €m	Gross book values				Net loan impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 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 stages	−118.7	102.2	16.5	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	2,206.1	−434.7	−7.3	1,764.1	−0.1	−1.2	1.2	−0.1
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**11,540.2**	**355.9**	**115.8**	**12,011.9**	**1.2**	**2.2**	**33.0**	**36.4**

	Impairments		Total
in €m	**Individually assessed**	**Collectively assessed**	
As at 01.01.2017	**7.7**	**15.5**	**23.2**
Reversals	0.2	0.4	0.6
Utilisation	0.0	0.0	0.0
Additions	0.0	0.0	0.0
Currency translation/transfers	0.0	0.0	0.0
As at 30.06.2017	**7.5**	**15.1**	**22.6**

Net loan impairment provision for financial assets

in €m	**Fair value**				**Net loan impairment provision**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 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 stages	−26.1	26.1	0.0	0.0	0.1	−0.1	0.0	0.0
Portfolio changes and changes related to credit quality	−638.4	−0.7	−39.7	−678.8	0.0	0.1	−10.1	−10.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**3,860.0**	**50.6**	**0.0**	**3,910.6**	**0.3**	**0.2**	**0.0**	**0.5**

Provisions for off-balance-sheet lending obligations

Provisions for credit risks developed as follows:

in €m	Nominal amount				Net loan impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 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 stages	60.8	−61.2	0.4	0.0	0.3	−0.3	0.0	0.0
Portfolio changes and changes related to credit quality	−72.6	74.5	6.1	8.0	−0.1	−0.5	−1.3	−1.9
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 30.06.2018	**12,225.5**	**510.4**	**38.7**	**12,774.6**	**0.8**	**0.8**	**9.1**	**10.7**

	Provisions		Total
in €m	Individually assessed	Collectively assessed	
As at 01.01.2017	**4.2**	**14.2**	**18.4**
Reversals	0.0	1.0	1.0
Utilisation	0.7	0.0	0.7
Additions	0.0	0.0	0.0
Currency translation/transfers	0.0	0.0	0.0
As at 30.06.2017	**3.5**	**13.2**	**16.7**

20 Fair Value of Financial Instruments

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

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

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

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

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

Assessments by management are necessary when calculating the fair value. The areas for which management decisions are necessary to a significant extent are identified, documented and reported to senior management within the scope of valuation controls and the monthly reporting cycles.

Management assessments are only required to a minor extent to determine the fair value of financial instruments, the prices of which are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and whose input parameters originate in active markets.

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

Remeasurements are an integral part of the process for determining the fair value that forms the basis for assessments. Remeasurements of the fair value are undertaken in the HSBC Trinkaus & Burkhardt Group if value-adjusting circumstances occur that might lead market participants to expect to be included in the determination of the fair value but are not taken into account directly in the valuation model. When calculating adequate remeasurements, the Group uses procedures that take into account factors such as bid/ask spreads, counterparty risk, its 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 in order to take into account the probability of the Bank's default.

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

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

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 used compared with 31 December 2017.

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

30.06.2018	Level 1	Level 2	Level 3	Total
in €m				
Assets				
Trading assets	**618.9**	**2,574.9**	**14.9**	**3,208.7**
Bonds and other fixed-income securities	0.0	1,497.0	0.0	1,497.0
Equities and other non-fixed-income securities	618.9	0.0	14.9	633.8
Tradable receivables	0.0	1,077.9	0.0	1,077.9
Positive market values of derivative financial instruments	**187.0**	**1,293.9**	**1.2**	**1,482.1**
Positive market value of derivatives	187.0	1,292.1	1.2	1,480.3
of which interest rate transactions	0.0	551.4	0.0	551.4
of which foreign exchange-based transactions	0.0	731.4	1.2	732.6
of which equity/index-related transactions	187.0	2.8	0.0	189.8
of which commodity-related transactions	0.0	6.5	0.0	6.5
Derivatives in hedging relationships	0.0	1.6	0.0	1.6
Derivatives held in the banking book	0.0	0.2	0.0	0.2
Financial assets	**11.3**	**3,924.0**	**0.0**	**3,935.3**
Bonds and other fixed-income securities	0.0	3,817.7	0.0	3,817.7
Promissory note loans	0.0	92.9	0.0	92.9
Investments	11.3	13.4	0.0	24.7
Other financial assets that must be measured at fair value through profit or loss	**36.1**	**198.6**	**18.6**	**253.3**
Bonds and other fixed-income securities	0.0	97.4	6.8	104.2
Equities and other non-fixed-income securities	0.0	22.3	0.0	22.3
Investment certificates	34.4	0.0	0.0	34.4
Hybrid financial instruments	0.0	78.9	0.0	78.9
Investments	1.7	0.0	11.8	13.5
Liabilities				
Trading liabilities	**0.0**	**2,215.4**	**36.8**	**2,252.2**
Promissory note loans	0.0	287.7	0.0	287.7
Bonds	0.0	659.2	1.0	660.2
Certificates and warrants	0.0	1,255.4	35.8	1,291.2
Delivery obligations arising from securities sold short	0.0	13.1	0.0	13.1
Negative market values of derivative financial instruments	**251.8**	**1,027.9**	**1.2**	**1,280.9**
Negative market value of derivatives	251.8	1,007.6	1.2	1,260.6
of which interest rate transactions	0.0	305.2	0.0	305.2
of which foreign exchange-based transactions	4.2	695.2	1.2	700.6
of which equity/index-related transactions	247.6	0.7	0.0	248.3
of which commodity-related transactions	0.0	6.5	0.0	6.5
Derivatives in hedging relationships	0.0	20.3	0.0	20.3
Derivatives held in the banking book	0.0	0.0	0.0	0.0

31.12.2017	Level 1	Level 2	Level 3	Measured at acquisition costs	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 of derivative financial instruments	**163.7**	**1,255.2**	**1.9**	**0.0**	**1,420.8**
Positive market value 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 of derivative financial instruments	**189.3**	**1,056.9**	**1.9**	**0.0**	**1,248.1**
Negative market value 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

* Some amounts here reported under Level 1 in the previous year

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

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

	Assets			Liabilities					
30.06.2018	**Fair value of trading assets (in €m)**	**Fair value of other financial assets that must be measured at fair value through profit or loss (in €m)**	**Fair value of positive market values of derivative financial instruments (in €m)**	**Fair value of trading liabilities (in €m)**	**Fair value of negative market values of derivative financial instruments (in €m)**	**Measurement method**	**Significant unobservable parameters (Level 3)**	**Uncertainty of interval margin (in €m)**	**Range of estimates for unobservable input factors**
Illiquid equity instruments/ private equity certificates	14.9			14.9		Modified net asset value method	–	0.0 to 0.0	–5 to 5 % price change
FX options			1.2		1.2	Analytical Black-Scholes approach	Volatility	0.0 to 0.0	95 % confidence interval based on average prices for unobservable volatility
Illiquid debt instruments		6.8				Present value method	Credit spread	–0.1 to 0.1	–10 to 10 % credit spread change
Illiquid equity instruments		11.8				Modified net asset value method	–	–0.6 to 0.6	–5 to 5 % price change
Volatility-dependent options				11.1		Analytical Black-Scholes approach	Volatility	–0.1 to 0.1	17 to 30 % (24 %)
Currency-hedged certificates				10.8		Analytical Black-Scholes approach	Correlation between underlyings	–0.0 to 0.0	–68 to 25 % (–12 %)

31.12.2017	Assets			Liabilities					
	Fair value of trading assets (in €m)	**Fair value of financial assets (in €m)**	**Fair value of positive market values of derivative financial instru-ments (in €m)**	**Fair value of trading liabilities (in €m)**	**Fair value of negative market values of derivative financial instru-ments (in €m)**	**Measurement 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	Volatility	0.0 to 0.0	95 % confidence interval based on average prices for unobservable volatility
Illiquid debt instruments		6.8				Present value method	Credit spread	−0.1 to 0.1	−10 to 10 % credit spread change
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 underlyings. The deflection of the volatility is up to +/–2 %.

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

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

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

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

* Shares in partnerships or unlisted public limited companies, whose measurement in the previous year was based on acquisition costs, including an impairment where applicable, are reported under Level 3 from 1 January 2018.

	Assets			Liabilities	
in €m	**Trading assets**	**Financial assets**	**Positive market values of derivative financial instruments**	**Trading liabilities**	**Negative market values of derivative financial instruments**
01.10.2017	**24.0**	**29.4**	**2.4**	**61.3**	**2.9**
Changes in the carrying amount					
recognised in the income statement	–0.7	14.4	–0.9	–0.2	–1.3
recognised directly in equity	0.0	–15.4	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	0.0	21.7	0.0
Sales	0.0	14.4	0.0	3.6	0.0
Maturities/repayments	0.4	0.0	0.0	18.2	0.0
Transfers to Level 3	0.0	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0	0.0	0.0
30.06.2017	**22.9**	**14.0**	**1.5**	**61.0**	**1.6**

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

Derivatives with positive and negative market values of €0.4million respectively were transferred out of Level 2 to Level 3 in the reporting period. In the same period, derivatives with positive and negative market values of €0.8million respectively were transferred out of Level 3 to Level 2 in the reporting period. In the previous year, no Level 2 instruments were reclassified to Level 3 or vice versa.

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

in €m	30.06.2018		31.12.2017	
	Book value	Fair value	Book value	Fair value
Assets				
Loans and advances to banks (gross)	1,537.6	1,538.5	858.3	858.9
Loans and advances to customers (gross)	10,474.3	10,583.0	9,393.1	9,462.4
Liabilities				
Deposits by banks	3,329.2	3,308.3	2,916.4	2,891.6
Customer accounts	18,385.9	18,394.1	14,591.7	14,596.3
Subordinated capital*	394.5	422.0	395.3	426.5

*The previous year’s fair value was corrected

The fair value of these items is calculated using the present value method. These items are allocated to Level 3 as the credit spread changes are not regularly observable on the market. Contingent liabilities amounted to €2,696.6million (H1 2017: €2,558.5million), and irrevocable loan commitments came to €10,078.0million (H1 2017: €10,208.1million).

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

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

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

in €m	01.01 to 30.06.2018	01.01 to 30.06.2017
Interest income	0.2	0.3
Interest expense	3.5	5.0
Fee income	37.4	63.0
Fee expenses	0.0	0.8
Administrative expenses	9.0	5.8
Net trading income	0.0	0.5
Net other income	0.0	0.0
Total	**25.1**	**52.2**

Assets include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2018**	**31.12.2017**	**30.06.2018**	**31.12.2017**
Loans and advances to banks	815.8	412.6	0.0	0.0
Loans and advances to customers	1.8	23.1	91.0	91.5
Other assets	5.7	6.2	0.0	0.0
Total	**823.3**	**441.9**	**91.0**	**91.5**

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

Liabilities include the following amounts:

	Affiliated companies		Associated companies	
in €m	**30.06.2018**	**31.12.2017**	**30.06.2018**	**31.12.2017**
Deposits by banks	424.6	475.0	0.0	0.0
Customer accounts	78.3	5.2	14.3	11.6
Other liabilities	166.6	194.7	0.0	0.0
Total	**669.5**	**674.9**	**14.3**	**11.6**

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

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

	Derivatives	
in €m	**30.06.2018**	**31.12.2017**
Derivatives with positive market values	628.5	746.9
Derivatives with negative market values	689.8	447.6
Total	**1,318.3**	**1,194.5**

22 Day-1 Profit or Loss

Financial assets in Global Markets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss.

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

in €m	2018	2017
As at 01.01	**0.3**	**0.2**
New business	0.0	0.3
Day-1 profit or loss recognised through profit or loss	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 30.06	**0.3**	**0.3**

23 Derivatives Business

	Nominal amounts by residual term				Positive market values
in €m	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	
Interest-rate transactions					
30.06.2018	3,817.6	10,700.7	4,477.3	18,995.6	553.0
31.12.2017	4,981.9	11,823.1	4,377.3	21,182.3	590.2
Foreign exchange-based transactions					
30.06.2018	76,593.6	3,785.3	87.6	80,466.5	732.8
31.12.2017	65,053.2	3,320.2	80.3	68,453.7	648.6
Commodity-related transactions					
30.06.2018	226.1	24.5	0.0	250.6	6.5
31.12.2017	289.0	19.3	0.0	308.3	13.7
Equity/index-related transactions					
30.06.2018	6,417.4	1,166.9	1.4	7,585.7	2.8
31.12.2017	6,067.0	23.1	19.8	6,109.9	4.6
Total					
30.06.2018	**87,054.7**	**15,677.4**	**4,566.3**	**107,298.4**	**1,295.1**
31.12.2017	**76,391.1**	**15,185.7**	**4,477.4**	**96,054.2**	**1,257.1**

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

24 Contingent Liabilities and Other Obligations

in €m	**30.06.2018**	**31.12.2017**
Contingent liabilities on guarantees and indemnity agreements	2,696.6	2,558.5
Irrevocable loan commitments	10,078.0	10,208.1
Total	**12,774.6**	**12,766.6**

25 Supplementary Report

Material events occurring after the balance sheet date

After the balance sheet date, an impaired loan from the Global Banking & Markets segment was classified as a held-for-sale asset (IFRS 5). The plan is to transfer this loan to a third party in the second half of 2018. According to the current progress of negotiations, if this loan were to be successfully transferred in the second half of 2018, a moderate seven-figure euro amount could be expected as revenue through profit or loss.

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

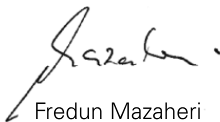
Düsseldorf, 21 August 2018

The Management Board

Carola Gräfin v. Schmettow

Dr. Rudolf Apenbrink

Paul Hagen



Fredun Mazaheri

Dr. Jan Wilmanns

Auditor's Report

We conducted a review of the condensed consolidated interim financial statements, comprising the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated cash flow statement and selected notes to the condensed consolidated interim financial statements, and the consolidated interim management report of HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, for the period from 1 January to 30 June 2018, which are components of the Interim Report pursuant to Section 115 German Securities Trading Act (WpHG). The Management Board of the Company is responsible for preparing the condensed consolidated interim financial statements pursuant to IFRS for interim reporting as applicable in the EU and the consolidated interim management report pursuant to the provisions of the German Securities Trading Act (WpHG) applying to consolidated interim management reports. Our task is to issue a report on the condensed consolidated interim financial statements and the consolidated interim management report on the basis of our audit review.

We conducted our review of the condensed consolidated interim financial statements and the consolidated interim management report in accordance with the generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Under these principles, the review must be planned and performed in a manner that ensures that, after conducting a critical assessment, we can determine with a certain degree of assurance that the condensed consolidated interim financial statements comply with the IFRS for interim reporting in all material aspects as applicable in the EU and that the consolidated interim management report complies with the provisions of the German Securities Trading Act (WpHG) applying to consolidated interim management reports in all material aspects. A review is limited primarily to inquiries of company personnel and analytical procedures and thus does not provide the assurance for an affirmative audit opinion obtainable from an audit of financial statements. Given that we did not conduct an audit in accordance with the engagement, we cannot issue an audit opinion.

On the basis of our review, we are not aware of any matters that could lead to the conclusion that the condensed consolidated interim financial statements do not comply with the IFRS for interim reporting in all material aspects as applicable in the EU and that the consolidated interim management report does not comply with the provisions of the German Securities Trading Act (WpHG) applying to consolidated interim management reports in all material aspects.

Düsseldorf, 22 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Goldschmidt
Wirtschaftsprüfer

p.p. Susanne Beurschgens
Wirtschaftsprüferin

Key Dates

February 2019
Results Press Conference

June 2019
Annual General Meeting

August 2019
Interim Report as at 30 June 2019

Subject to changes

Imprint

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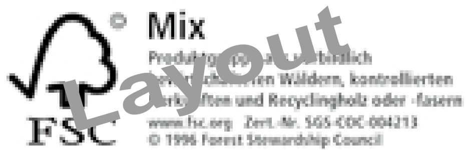

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