Annual Report 2007
HSBC Trinkaus & Burkhardt

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Group Management Report
Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 16 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Trinkaus Real Estate GmbH** Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxembourg KG Düsseldorf
HSBC Investments Deutschland GmbH Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Private Wealth GmbH Düsseldorf	
International Transaction Services GmbH* Düsseldorf	DPT Deutscher Pension Trust GmbH Düsseldorf	

* accounted for at equity
** renamed, previously HSBC Trinkaus & Burkhardt Immobilien GmbH

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

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

Constitution of the Company

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

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

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

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in Section 119 German Stock Corporation Act (AktG). Please see Note 39 in respect of the Management Board's current authorisation to issue shares.

In accordance with the resolution passed by the Annual General Meeting on 5 June 2007, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10%. The number of shares bought for this purpose may not exceed 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2008.

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

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of the Management Board to the personnel committee of the Supervisory Board. The members of the personnel committee of the Supervisory Board in the 2007 financial year were Dr Sieghardt Rometsch (Chairman), Stephen Green (up to 5 June 2007), Harold Hörauf (from 12 September 2007) and Stuart Gulliver. The personnel committee met four times in the 2007 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and performance-related components as well as individually guaranteed pension payments. The fixed amounts are paid in 12 equal monthly instalments and examined annually by the personnel committee. There is no obligation to adjust the fixed compensation. The performance-related components are defined by the personnel committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The share-based compensation will be paid out in three equal instalments over the next three financial years, in each case after the announcement of the net profit for the year of the HSBC Group. The payout is subject to continued service for the Bank at the expected time of payment. No share options are granted to the members of the Management Board of the Bank.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2007 financial year can be found in Note 65 "Business Relationships with Companies and Persons Defined as Related Parties".

The compensation structure for members of the Supervisory Board is governed in the Articles of Association of HSBC Trinkaus & Burkhardt AG. In addition to the reimbursement of their expenses and the value-added tax accruing on Supervisory Board activities, each Supervisory Board member is thereby entitled to receive fixed compensation of €25,000 plus variable compensation of €100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the Deputy Chairman double this compensation. The Chairman of a Supervisory Board committee receives double and members of a sub-committee one-and-a-half times the amounts stated, provided the respective committee has met at least once in the financial year. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a sub-committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2007 financial year is reported under Note 65 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are supported by Mr Florian Fautz, Mr Trevor Gander and Mr Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)
HSBC Liaison
Company Secretariat
Compliance/Money Laundering
Corporate Communications
Audit
Data Protection

Central Functions B

Paul Hagen
Member of the Management Board
Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Member of the Management Board
Private Banking

Division II

Andreas Schmitz
Member of the Management Board
Corporate Banking
International Business
Investment Banking

Florian Fautz
Member of the Executive Committee
Investment Banking

Manfred Krause
Member of the Executive Committee
Corporate Banking
International Business

Division III

Carola Gräfin v. Schmettow
Member of the Management Board
Institutional Clients
Asset Management

Division IV

Carola Gräfin v. Schmettow
Member of the Management Board
Global Markets

Division V

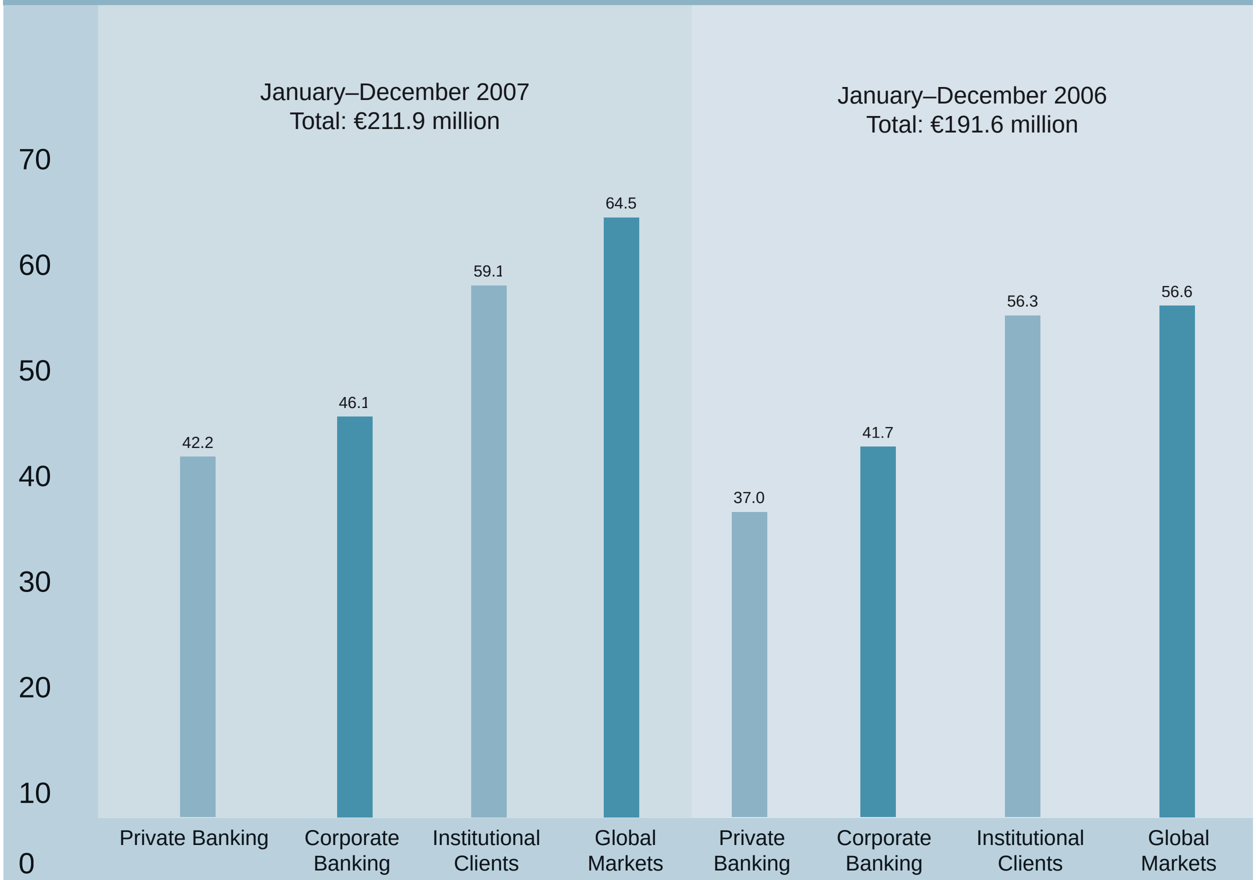
Paul Hagen
Member of the Management Board
Operations
Business Process Development
Information Technology
Credit

Trevor Gander
Member of the Executive Committee
Credit
Operational Risk

Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets.

Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit



After deduction of the €5.9 million net costs incurred by head office functions during 2007, as against €9.1 million for 2006, the 2007 operating profit was €206.0 million (2006: €182.5 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions

Private Banking 20.80%

Corporate Banking 24.77%

Institutional Clients 28.44%

Global Markets 25.99%

Strategic Direction

The German banking sector was characterised by an increase in the earnings power of the market participants from 2004 to 2006, although increases in trading profits and a reduction in value adjustments were more responsible for this than real improvements in the operative client business. However, the signs have turned as a result of the subprime crisis, the aftermath of which has hit in particular institutions operating without a viable business model.

A possible slowdown in economic activity as a result of the American economy losing momentum, perhaps even going into recession, could mean an increase in loan impairment provisioning requirements again. This will affect international market participants as well, though, whose business policy has been focused so far largely on structured financial solutions such as leveraged finance or structured products. These institutions will have to find their bearings again on the German market.

However, it appears to be too soon to deduce from this that we have seen the start of the long-awaited consolidation process in the German banking market. In the public sector in particular, banks are still tending to put off making structural changes and avoiding necessary corrections by obtaining fresh government financing or additional state guarantees.

In the current situation, which may well get even worse for some of our competitors, HSBC Trinkaus & Burkhardt's virtues stand out all the more: consistent strategy and personnel together with proven relationship management geared exclusively to the client.

We will continue to offer our clients the "best of both worlds": the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. It is essential that we make this unique combination in the German banking landscape even more visible for both our existing and future clients in the more difficult years which lie ahead for us and for the German banking market.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both the national and international level. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. In the area of complex financial derivatives and in the M&A business, we systematically develop meaningful and usable innovations and solutions for our clients. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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

- We concentrate on the target groups of high net worth private clients, corporate clients and institutional clients and we aim to become a core banking partner for all our clients.
- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and future clients. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing our clients.
- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. Nevertheless, it also appears necessary at the same time to emphasise our careful, flexible and service-oriented execution of standard transactions.
- We are constantly expanding our range of securities settlement services for our clients and for other financial institutions. We offer highly qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement and Internationale Kapitalanlagegesellschaft mbH (INKA) for fund administration, each of which has significant market shares. Added to this is the Bank's Global Custody offer.
- We draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both technical product efficiency and the respective regional network.

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

- We must systematically open up the global network, the regional links and the local know-how of the HSBC Group for our clients without having to make compromises in terms of their requirement of an individualised private bank servicing concept.
- We must find and develop useful solutions in the spectrum of ever more complex financial services on the basis of a long-term client relationship which is based on trust.
- We must ensure that we have a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value added chain, and we must offer our services at a competitive price and in a client-friendly manner.
- We must invest in the qualification of our employees through targeted and advanced training measures on the international level.
- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

We firmly believe that this strategy offers a broad base for ensuring our long-term future business success, even in the German financial marketplace which is undergoing major changes.

The 2007 Financial Year

The economic environment

The global economy expanded for the fifth year in succession in 2007, benefiting in particular from strong growth in Asia. In this environment the German economy was easily able to digest the increase in VAT at the beginning of 2007 as dampened consumer spending was cushioned by an investment and export boom. Germany went on to post solid growth of 2.6%. As a result of this strong growth, the process of recovery on the German labour market continued with the seasonally adjusted unemployment rate falling to 8.1%, the lowest level since the end of 1992. The growth Germany recorded in 2007 put it on the level of the European average enabling it to leave the USA behind as regards economic growth. 2007 was also characterised by a strong increase in inflation: with energy and food prices rising, inflation rose temporarily to over 3% at the end of the year.

In the first half of 2007 the ECB raised interest rates twice by 25 bp in each case from 3.5% to 4.0%. While the US central bank eased monetary policy several times at the end of the year as a result of the crisis on the international capital markets, the ECB left interest rates unchanged in the second half of the year. In concerted action with the US central bank, the Bank of England and the Swiss central bank, the ECB made additional liquidity available in order to ease the pressure on the money markets.

While the broad European and US stock market indices closed 2007 with meagre gains, the DAX30 was up by a good 22% and reached a new record high of 8,152 points in July. Capital market activity in the Eurozone was characterised by an increase in yields in the first half of the year, with yields on 10-year government bonds peaking at 4.7%. This trend was reversed in the second half of the year on account of the US central bank changing direction and the long-term yield fell back to 4.3% by the end of the year. In this environment the euro was able to advance across the board and notched up significant gains, in particular versus the US dollar. The single European currency rose from $1.32 at the beginning of 2007 in the direction of $1.46 at the end of the year.

Profitability

Despite the financial market crisis, we clearly reached our goals in the 2007 financial year. We increased operating profit–the most important financial performance indicator–by 12.9% to a new record level of €206.0 million. We were equally successful in further increasing the number of our client relationships. Our results were improved once again in all business divisions. As was already the case the previous year, we gave a particularly good performance in the first half of the year. Due to the growing uncertainty among our customers in reaction to the subprime crisis, our earnings growth slowed down slightly in the second half of the year. However, we are more than satisfied with our performance in the second half of 2007 as well with an increase in operating profit of 10.1% compared to the second half of 2006. Overall, the subprime crisis has put no notable direct burden on our Bank as we have consciously avoided investments in these products. However, we cannot rule out indirect repercussions as a result of changes in the markets and in client demand.

By clearly focusing our strategic orientation on selected client groups we continued along a profitable growth path in 2007, despite notable investments in employees and systems.

The success of the 2007 financial year is based essentially on three main factors:
- Consistent implementation of our strategy
- Moderate willingness to assume risk combined with sophisticated risk management
- Intensive cooperation with HSBC

As a result of the implementation of our strategy, we were able to acquire new target client relationships in all client segments as well as intensify existing client relationships. We achieved more than proportionate growth compared to the market.

Although taking on risks is one of the core functions of a bank, these risks have to be properly assessed and monitored and actively controlled. Apart from our trading activities, we enter into counterparty risk only in connection with our own client business. We pay strict attention to the profitability of each client relationship and have always refrained from taking on synthetic credit risks.

The close cooperation with HSBC enables us to combine the “best of both worlds”: the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. This partnership-based cooperation extends to very many fields of business with differing intensity, in each case corresponding to our clients’ needs.

The individual items of the income statement developed as follows:

Net interest income was up 24.2% to €110.0 million. This favourable trend is based essentially on our success in the client business, but interest income from financial assets was also up again by 6.2% versus the high prior-year level. By acquiring new clients as well as intensifying existing client relationships, we were able to significantly increase average volumes on both the lending and deposits side. Thanks to our extremely good liquidity situation we expanded the interest margin in the deposit business leading to a significant increase in net interest income in this segment. However, there was only a slight improvement in earnings in the lending business as the stiff competition for our target clients led to slightly lower credit margins. Despite the continuation of the financial market crisis, no improvement in the margins in the client lending business can be observed so far. We have been able to invest our free cash flow far more profitably on the interbank market, including the HSBC Group, as the credit and liquidity spreads have widened substantially in the wake of the financial market crisis.

The good quality of our credit portfolio again led to the reversal of loan impairment provisions on balance. Overall, net interest income after loan impairment provisions was up 21.0% to €113.5 million.

There was a 12.9% increase in net fee income to €318.1 million. Fee income was up 19.3% to €620.7 million, while fee expenses increased by 26.8% to €302.6 million. The more than proportionate increase in fee expenses is, above all, the result of the strong expansion in transaction volume which led to a sharp increase in third-party fees and securities settlement costs which could not be passed on in full. It is to be pointed out that fees in the securities business increased significantly by €21.6 million or 11.9% to €203.7 million despite the uncertainties on the financial markets since the middle of the year. On the one hand, we benefited from higher transaction volumes reflecting not least the steady growth in the number of our clients and the intensification of existing client relationships. On the other, this success can also be attributed to the trust which our clients place in our consulting expertise in particular in this difficult market situation. We managed to step up our cooperation with HSBC substantially in the year under report in particular in the securities business. For example, we took on the role of custodian for Germany in the HSBC Group last year. There was also a strong improvement in our issuing and structuring business. Net income here was up once again by €7.5 million or 61.0% to €19.8 million. This success is based on the successful placement of a structured participation rights issue (H.E.A.T III) in the first quarter. We were able to more than double earnings in the corporate finance business, thanks to the successful structuring and placement of capital increases. As sole lead manager in the capital increases carried out by ersol Solar Energy AG and Nordex AG, the Bank provided evidence of its capital market and sector expertise in the renewable energy segment. This was set against a reduction in earnings in the real estate business. HSBC Trinkaus & Burkhardt placed no real estate funds in the year under report, due primarily to the enormous purchase price increases with correspondingly lower returns for properties in connection with the internationalisation of the real estate markets. A property was acquired in Brisbane, Australia just before the end of the year which is to be marketed as a fund.

Down by 3.8% to €100.1 million, net trading income fell only just short of the previous year's high. We again enjoyed particular success in marketing retail products under our HSBC Trinkaus Retail Derivatives brand (www.hsbc-zertifikate.de). With the issue of more than 20,000 certificates and warrants we reached a new high in 2007. This guarantees that we will always be able to present offers which are perfect for the respective market environment in fast-moving times as well. It is to be pointed out here that in particular we were able to quote tradable prices for all of our issues at all times, even given the major market turmoil. Furthermore, we benefited from the favourable sentiment on the European bond and equity markets in the first half of the year as well as from the major volatility on these markets in the second half. The apportionment of net trading income to the individual types of product shows that we still focus on the equities and equities/index derivatives business, while in interest rate products and derivatives trading we rely very strongly on the global trading books of the HSBC Group. At €79.0 million net trading income from equities and equity derivatives fell only just short of the good prior-year figure of €80.1 million. There was also a slight decline in our interest rate products trading activities to €10.9 million. Thanks to its good liquidity position the Bank was able to benefit from the wider credit and liquidity spreads, but investor uncertainty as a result of the subprime crisis led to declining net trading income from interest rate products in the second half of the year. In our foreign exchange trading activities we were almost able to repeat our prior-year performance in the year under report.

Overall, administrative expenses increased by 11.7% to €333.4 million. The growth in staff expenses of €13.6 million or 7.2% to €203.3 million is the result on the one hand of the further increase in our staff as we continue along our strategic growth path. On the other, we honoured the record result in 2007, thanks to the profitable implementation of our growth course, with higher performance-related remuneration for our staff. The decline in expenses for post-employment benefits reflects the increase in income from plan assets in our CTA. Other administrative expenses increased by €20.2 million or 20.5% to €118.8 million. The increase is essentially the result of higher fees for IT advisory services for the further modernisation of our IT infrastructure as well as statutory provisions. With MiFID having been implemented on time and the preparations for converting to the Basel II provisions having been completed successfully in the year under report–along with the SEPA project–the preparations for the implementation of the withholding tax got under way towards the end of the year. These projects involve expenses going into millions. The further modernisation of the IT infrastructure is in line with our strategic growth plan. Alongside the fees for advisory services, additional group expenses as a result of our stronger cooperation with the HSBC Group also led to an increase in administrative expenses.

Net income from financial assets declined, but is clearly positive as the Bank did not have to digest any notable burdens resulting from the subprime crisis. We have always avoided taking on synthetic credit risks, and entered into minor ABS positions only in order to support selected client transactions.

This led to a slightly smaller increase in profit before taxes than operating profit, namely of 9.7% to €207.8 million.

The substantial reduction in future domestic tax rates as a result of the corporate tax reform which came into force on 1 January 2008 is to be counterfinanced by widening the assessment basis. The lower tax rates led in particular to lower deferred tax at the Bank as a result of which overall tax expenditure was down by 15.4% or €11.5 million in 2007. Net profit for the year therefore rose more than proportionately by 26.0% to €144.4 million.

The asset situation

In 2007 the balance sheet total again grew substantially by 12.8% to €21.1 billion. On the assets side, there was a significant rise compared to the previous year, in particular in loans and advances to clients of 34.7% to €4.3 billion as well as in trading assets of 15.4% to €10.4 billion. On the other hand, there was a 23.8% reduction in balances with the Deutsche Bundesbank to €0.3 billion, which was balance-sheet-related, as well as in loans and advances to banks of 7.3% to €4.1 billion. On the liabilities side, compared to the previous year deposits by banks were up 16.0% to €10.3 billion and customer accounts by 69.3% to €2.5 billion, while trading liabilities were down by 2.9% to €6.5 billion.

The growing number of client relationships is associated with the expansion of our lending portfolio, in particular in the corporate banking business. This is evident above all from the growth in loans and advances to clients. On the other hand, the decline in loans and advances to banks and the increase in trading assets is due above all to overnight money being exchanged for short-term certificates of deposit in order to make better use of the excellent liquidity position and also to balance-sheet-date-related effects. One reason for the excellent liquidity situation is very high levels of client deposits which reflect the significant inflows of funds in the business with high net worth private clients and in the fund business. A second reason for the liquidity situation is the fact that, for some years now, our various trading departments have made a significant contribution to Group liquidity through the ever-growing number and diversity of structured issues. The increase in deposits by banks is mainly balance-sheet-related.

While our trading portfolios of equities and other variable-income securities declined significantly, there was a substantial increase in fixed-income securities in the trading portfolio, in particular certificates of deposit. The market values of derivatives declined slightly in both trading assets and liabilities owing to the trend in interest rates, although we further expanded the derivatives business in cooperation with HSBC.

The financial position

As of the balance sheet date, the Group’s equity ratio and Tier 1 capital ratio according to the German Banking Act (Kreditwesengesetz–KWG) was 10.7% and 6.4%, respectively. This means that the Bank’s capital resources still exceed the minimum regulatory requirements by far.

There was a significant increase in risk assets and a moderate increase in the market risk positions according to the German Banking Act in 2007, while regulatory capital in the Group remained almost unchanged at €1.0 billion. The increase in risks assets is based primarily on the growth in loans and advances to clients. For the purpose of calculating regulatory capital, profit retention and the derecognition of participatory capital owing to it falling below the two-year residual term limit cancelled each other out.

We made no substantial adjustments to financial assets in 2007. At €76.2 million the revaluation reserve for financial instruments was down slightly compared to €88.6 million the previous year, due above all to the higher level of interest rates.

Liquidity at the Bank also remains good. Regulatory requirements were exceeded significantly throughout the year, with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) at an average of 1.58 for the end-of-month positions.

Outlook for 2008

There were growing signs over the course of 2007 that the global upswing will lose momentum in 2008. The slowdown which is emerging was prompted by the real estate boom in the US coming to an end and the resulting global banking and financial market crisis, which is also likely to dominate much of 2008. In this environment, there is a threat of a notable slowdown in growth in the USA which the US central bank is trying to counter by sharply reducing interest rates.

The German economy will not be able to escape this downtrend, either. Not only are its most important trading partners experiencing weaker growth, German companies and consumers are also likely to be hit by the financial market crisis via a restrictive lending policy on the part of the banking system. We are only expecting growth of around 1.5% in Germany and the Eurozone in 2008. The labour market as well as an increase in real wages should have a supportive effect on German growth. The ECB is likely to pay tribute to the worsening growth prospects towards the middle of the year and introduce a cycle of interest rate cuts. By the beginning of 2009 we are expecting a reduction of the repo rate from its current level of 4.0% in at least two steps. A significant increase in yields at the long end of the yield curve need not be anticipated in this environment.

The situation on the German banking market has seldom been so difficult. It has only been possible for several institutions to save themselves from insolvency by seeking external assistance amounting to billions. The capacity of other individual institutions to carry risk has been reduced by wrongly assessing the risk content of positions they entered into. In this challenging environment, we plan to use our clear client focus and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients, and valuable resources are not tied up by internal restructuring measures.

The starting base is very high given the successes achieved in the 2007 financial year in which we clearly met our forecast despite the start of the subprime crisis in the summer. This applies all the more as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past five years and therefore have a record result as a basis of comparison. We believe there will be a substantial reduction in the volume of revenues generated by the banks in Germany in 2008. The question as to whether the targeted market share gains will be sufficient to maintain the revenue base at the prior-year level remains open at present. This is the condition to succeed in balancing out the increase in administrative expenses and maintaining operating profit more or less at the prior-year level.

It is a precondition that there are no further major share price losses on the stock markets so that there is no major slump in transaction volumes compared to the previous year. The credit risk costs, which made a positive contribution to the operating profit on a portfolio basis from 2005 to 2007 as a result of the release of loan impairment provisions for individual large commitments, should be in the single-digit million range. We are not yet expecting any significant deterioration in borrower creditworthiness for the portfolio as a whole, but fear a reduction in credit quality in individual cases.

Administrative expenses will continue to rise. There is accumulated demand on account of significantly higher transaction volumes and the positions which have been planned for this, but not yet filled. We will continue to strengthen our investment banking activities as a strategic project and not allow ourselves to be put off by the current market distortions. As a result of the acquisition of 100% of ITS International Transaction Service GmbH, which provides securities settlement services for HSBC Trinkaus & Burkhardt and other banks, both the fee income and administrative expenses of this company will be entered under the corresponding income statement items and lead to a notable increase in these items as a result of the transition from at-equity to full consolidation; the cost:income ratio will be increased by just less than 2% as a result. We will not be able to escape the significant increase in costs as a result of administrative and regulatory provisions. We regard a cost:income ratio ranging from 65% to 70% in terms of operating profit as adequate for our business model of a universal bank with a wide range of products for our clients. The favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. We would regard an operating profit and profit before taxes at the level of 2007 as a clear success for our Bank, with its deliberately strong capital market and service orientation, also in comparison with other banks.

We are expecting the successful performance seen in all client segments in recent years to continue. The volume of assets managed in our Private Banking business has increased significantly as a result of the inflows of funds in previous years and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer, but will also require additional qualified staff in order to generate further solid growth. The performance of important asset categories will presumably require the greater use of structured products in 2008 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. It is also essential that we adjust as best as possible to the new tax provisions. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and generate an earnings contribution comparable to the previous year. We are open to acquisitions in this client segment.

HSBC Trinkaus & Burkhardt’s collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand, and has thus been able to acquire new clients. We aim to use the trust gained to broaden our service offer. Offering additional services is unavoidable as the credit margins of counterparties with an immaculate credit standing have declined dramatically on account of the major competitive pressure. As a result, it is no longer possible to adequately cover the possible default risk or generate reasonable returns on equity from the credit margins. This statement applies not only to the syndicated loan business with internationally operating groups, but also increasingly to the upper Mittelstand segment. The banking crisis has not yet led to the notable widening of credit margins. We fail to understand why other banks offer interest rates which are below the refinancing costs of these institutions on the capital market, in particular for client loans with mid-range and long maturities. This conduct illustrates the distortions which still exist in the German banking system. Following the significant expansion of our credit portfolio in recent years, we will extend our credit volumes only on a selected and earnings-oriented basis overall. The earnings contribution in the corporate banking business can therefore only be increased by our clients using additional banking services. A pure debtor-creditor relationship still does not offer an adequate basis for a lasting business relationship.

Our expectations for this year are also cautious as regards our business with institutional clients. It remains to be seen whether the expected decline in sales of structured credit products can be compensated by other products. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for the clients.
Thanks to our cautious approach to high-risk structures and the transparency of the risk profiles, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available for this; we have direct access to its global trading books which also enable large-volume transactions and the assumption of risk, and can thus offer added value.

We see further growth in demand for our asset management services. Our subsidiary HSBC Investments Deutschland GmbH has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. The successful global product cooperation with HSBC in the field of global asset management services will lead to the significant broadening of the product range, above all also for investments in countries which stand out through particularly dynamic growth. However, investors already started to partly realise the major price gains from the emerging market funds in the final quarter of 2007, as a result of which placed volumes have declined. In keeping with this the Bank's fee income has also been reduced.

The success of our subsidiary INKA Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than €55 billion in fund administration creates economies of scale in the competition. A new fund accounting system will be introduced this year, which ties up major resources, enabling the acquisition of new large mandates to be stepped up.

In addition, we will further improve our performance as a global custodian through integrated cooperation with HSBC Securities Services. The success with acquisitions in 2006 and 2007 makes us optimistic for all three services–portfolio management, the master capital investment company offer, and global custody. We are also ready to make acquisitions in all three lines of business.

Our continuing success with the HSBC Trinkaus Investment Products sales initiative is expected to further improve our market position with respect to sales of certificates, warrants and mutual funds. However, as the slump in prices on the stock markets at the beginning of 2008 has led to a reduction in private investors' risk capital, an increase in volumes and therefore also revenues is questionable, despite active product marketing. We will strengthen the technical platform and make our Internet presence even more attractive for our clients.

As a result of the reorganisation of our trading activities in the wake of the integration into the HSBC Group, the interest rate product and foreign exchange trading books are geared exclusively to supporting our client activities. We benefit here from the liquidity and risk-bearing capacity of HSBC's trading books. Equity trading and the equity derivatives activities will be expanded further on the other hand in the wake of the division of labour. New products are expected to support our HSBC Trinkaus Investment Products sales initiative in the future. Overall, owing to this orientation growth in revenues from trading activities is more dependent on the performance of and turnover on the European stock markets than before. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the extremely high earnings contribution from trading recorded in 2007.

The investments in IT systems will be continued to the extent planned in 2007 in order to realise further increases in efficiency in different areas of the Bank. These will be accompanied by adjustments which are necessary to effectively support integration into the HSBC Group. We successfully completed the Basel II project together with the introduction of a new reporting system with effect from 1 January 2008. We already fulfilled the new requirements of the European Markets in Financial Instruments Directive (MiFID) in November. After completing the introductory projects, it is now a question of fulfilling the requirements in day-to-day business. The Bank's already high regulatory costs, to which the requirements of the Sarbanes-Oxley Act (SOX) also contribute, will therefore be increased further. The introduction of SEPA (Single European Payments Area), which was prescribed by national legislation in implementing the EU provisions, can be referred to as an example of the provisions which the banks have to implement at their own expense and which will lead to lower earnings. The public service authorities are not prepared to implement the new standards themselves in the next few years. Apart from system separation in securities settlement an additional project will be the implementation of the new withholding tax in 2008. There will be a major need for the bank systems to adjust in this case as well, as the legislature lacks the political will to introduce clear standard regulations. On the other hand, in addition to the interest withholding tax which has already had to be collected for the tax authorities free of charge to date, the banks will also be required to transfer withholding tax for capital gains without being compensated for the costs involved with effect from 1 January 2009. Overall, despite the cautious management of resources we are expecting an increase in administrative expenses in the high single-digit percentage region for 2008 excluding the effect of the full consolidation of ITS.

Following the further issue of new participatory capital in 2006 and after the planned reinvestment of net profit for 2007, the Bank's capital position is good and will enable the targeted and return-oriented expansion of our business activities. We will not increase our subordinated capital further as long as the distortions from the banking crisis continue. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business. We plan to generate an unchanged dividend for our shareholders for 2008.

Risk Management

Principles of risk management policy

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

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the Bank has taken out adequate insurance. We avoid reputational and liquidity risk as far as possible and are prepared to accept lower profits as a consequence.

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

Risk management–organisational structure

The following three committees play a central role within the Group's risk management organisation:
- the credit committee for counterparty risk
- the asset and liability management committee for market and liquidity risk
- the operational risks committee for operational risks including legal and reputational risks

The internal audit department plays a major role in early risk detection. In its reports it highlights significant risks through the classification of its audit findings.

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

Because of this, the short decision-making channels to the senior management as well as the awareness of risks taken and the continuous development of the Group's risk management system are all of central importance.

Strategic risk

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

The Bank's strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent on our clients' activities on the equity, bond, foreign exchange and derivatives markets, and also on the capital markets' capacity to absorb new interest rate and equity product issues. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for high net worth private clients, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way via the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

The increasing use of the Internet and electronic trading platforms has led to steady declines in margins on the one hand and the clients' ties with the Bank becoming looser on the other. This means that considerable revenue potential could be under threat unless we succeed in countering this trend by offering a comprehensive service, first-class client advice and the immediate execution of orders. The pressure on margins in the individual banking services is steadily increasing and we are combating this trend by rationalising and automating our working processes. Information technology is becoming more and more important in this context.

The further modernisation of our IT architecture will demand significant personnel and financial resources in the future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware resulting in a further significant increase in the Bank's cost base.

The increasing regulatory control in the German banking system and responsibilities stipulated by the government being passed on to the banks, such as money laundering control and the collection of taxes together with the accompanying examinations, has led to a significant increase in regulatory costs for the Bank about which we are extremely concerned. This trend will lead to a substantial increase in the Bank's fixed costs. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are extremely sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for the Bank.

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

Counterparty risk

a) Organisation of the credit processes

Counterparty risk may be subdivided into credit risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a contractual partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

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

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

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

The minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin) in December 2005 are being consistently complied with. In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

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

In the light of the reform of the Basel Capital Accord, the Bank has used a 22-stage rating system to classify the credit quality of its corporate and institutional clients (see also section on Basel II) in the lending business since 2005. In order to determine the internal rating, the Bank uses four rating systems which cover the customer groups international corporations, German medium-sized companies, banks and financial service providers. These systems are already being used for risk classification and their details being constantly improved. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and any collateral agreements.

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

The rating system for large international corporations, banks and financial service providers was adopted by the Bank from the HSBC Group after an internal inspection of its suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for this internationally oriented portfolio. In addition to the statistical analysis of financial data and analysis of the sector and country risk, all HSBC rating systems include a qualitative evaluation of the company and its economic environment which is drawn up by customer service officers in Germany in collaboration with the local credit experts.

The expected probability of default for each borrower can be derived from the rating. On this basis, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. A loan impairment provision is set up for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated over a period of time so that the cash value of these payments can be compared with the book value of the loan exposure. The loan impairment provision fully covers the shortfall calculated in this way.

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

Credit risk monitoring is conducted by applying a risk limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded.

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

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

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

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

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

The Bank is deliberately reticent about foreign lending, except where the purpose is to assist clients in their business dealings. The local offices of the HSBC Group are better able to assess many risks which are difficult for us to evaluate. We therefore pass these client relationships on to the local units.

b) Maximum exposure to credit risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by credit risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. However, we do not go into this in more detail below on account of the extremely short settlement periods.

The following table shows the Bank's theoretical maximum exposure to credit risk as of the balance sheet date disregarding collateral received and other credit enhancements. It can be quantified best by means of the carrying amount of the financial assets (including OTC derivatives).

Any amount offset in accordance with IAS 32 as well as the impairment losses recognised in accordance with IAS 39 are taken into consideration in the gross carrying amount. Exchange-traded derivatives are not subject to default risk on account of the margin system.

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

HSBC Trinkaus & Burkhardt's maximum credit risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Loans and advances to	**8,389.9**	**33.4**	**7,613.2**	**33.4**
Banks	4,117.0	16.4	4,440.1	19.5
Customers	4,272.9	17.0	3,173.1	13.9
Trading assets	**9,888.0**	**39.3**	**8,464.6**	**37.2**
Bonds and other fixed-income securities	6,241.9	24.9	3,978.9	17.5
Equities and other non fixed-income securities	479.4	1.9	859.0	3.8
Marketable receivables	813.1	3.2	1,136.8	5.0
OTC derivatives	1,311.8	5.2	1,326.4	5.8
Reverse repos/securities lending	1,041.8	4.1	1,163.5	5.1
Financial assets	**1,567.9**	**6.2**	**1,437.6**	**6.3**
Bonds and other fixed-income securities	885.8	3.5	929.6	4.1
Equities	41.5	0.2	49.2	0.2
Investments	383.3	1.5	221.7	1.0
Promissory note loans	157.2	0.6	163.1	0.7
Interests in subsidiaries	100.1	0.4	74.0	0.3
Financial guarantees	**1,617.2**	**6.4**	**1,581.2**	**6.9**
Loan commitments	**3,704.3**	**14.7**	**3,701.1**	**16.2**
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

c) Collateral and other credit enhancements

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

The Bank uses internally developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is recorded in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a program which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. The credit analyst obtains a valuation for securities for which no valuation is available.

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

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract. In contrast, assigned receivables and transfers of title to physical objects as security are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when valuing assignments the legal status of the pledge and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location and the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is stipulated which is applied to the receivables portfolio and the determined value of the pledged tangible assets.

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

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

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

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

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

d) Information on credit quality

Loans and advances as well as financial guarantees and loan commitments

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3
Past due, but not impaired	0.0	1.2	–	–	1.2
Individually impaired*	0.0	20.5	21.9	4.5	52.8
Total	**4,117.0**	**4,272.9**	**1,617.2**	**3,704.3**	**13,717.3**

31.12.2006					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,440.1	3,133.3	1,554.9	3,698.3	12,826.6
Past due, but not impaired	0.0	1.5	–	–	1.5
Individually impaired*	0.0	38.3	26.3	2.8	67.4
Total	**4,440.1**	**3,173.1**	**1,581.2**	**3,701.1**	**12,895.5**

* including credit risk provisions.

Trading assets and financial assets (exclusively bonds)

The following overviews are based on the results of external rating agencies (as a rule Standard and Poor's). It is taken into consideration that external issue ratings are only available on a regular basis for bonds and other fixed-interest securities. Should different rating agencies arrive at differing valuations of the same financial assets, the lower value is reported.

in € million	31.12.2007			31.12.2006		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	995.9	246.4	1,242.3	797.3	223.0	1,020.3
AA+ to AA-	4,889.6	218.4	5,108.0	2,820.8	198.0	3,018.8
A+ to A-	117.0	133.2	250.2	86.6	193.1	279.7
BBB+ to BBB-	10.0	71.5	81.5	10.2	51.5	61.7
Below BBB-	0.0	28.5	28.5	0.0	15.7	15.7
Unrated	229.4	187.8	417.2	264.0	248.3	512.3
Total	**6,241.9**	**885.8**	**7,127.7**	**3,978.9**	**929.6**	**4,908.5**

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

		31.12.2007		31.12.2006	
		in € million	in %	in € million	in %
OECD	Banks	1,127.1	85.9	1,113.4	84.0
	Financial institutions	45.1	3.4	94.8	7.2
	Other	135.6	10.1	115.8	8.7
Non-OECD	Banks	1.4	0.1	0.9	0.0
	Financial institutions	0.0	0.0	0.0	0.0
	Other	2.6	0.5	1.5	0.1
Total		**1,311.8**	**100.0**	**1,326.4**	**100.0**

e) Information on exposures which are neither past due nor impaired

The quality of the loans and advances (including financial guarantees and loan commitments) which are neither past due nor impaired is determined by means of an internal rating procedure. Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto seven financial grades. Financial grades 1–5 comprise as a rule exposures which are neither past due nor impaired. The credit quality as of the balance sheet date was as follows:

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,103.0	1,791.4	805.3	1,671.9	**8,371.6**
Rating classes 3-4	14.0	2,454.7	787.3	2,027.9	**5,283.9**
Rating class 5	0.0	5.1	2.7	0.0	**7.8**
Total	**4,117.0**	**4,251.2**	**1,595.3**	**3,699.8**	**13,663.3**

31.12.2006					
in €m	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,384.9	1,359.4	784.3	1,647.2	**8,175.8**
Rating classes 3-4	55.2	1,769.8	768.2	2,051.1	**4,644.3**
Rating class 5	0.0	4.1	2.4	0.0	**6.5**
Total	**4,440.1**	**3,133.3**	**1,554.9**	**3,698.3**	**12,826.6**

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

f) Information on loans and advances which are past due, but not impaired

The Bank's loans and advances which have not been impaired although past due are the result of the purchase of credit-insured foreign accounts receivable outside the European Union. These loans and advances amounted to €0.8 million in 2007 (2006: €0.4 million). No corresponding impairments were made on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at €0.7 million in the year under report (2006: €0.4 million).

There are also past due, but not impaired claims resulting from excess interest of €0.4 million (2006: €1.1 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was €0.5 million (2006: €1.4 million).

g) Information on exposures for which loan impairment and other credit risk provisions have been set up
HSBC Trinkaus & Burkhardt carries out loan impairment and other credit risk provisioning as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these circumstances applies, a value correction is to be made on the recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by the person responsible. The credit ratings 6 and 7 include problematic exposures for which loan impairment and other credit risk provisions have been set up. Loan impairment and other credit risk provisions set up to allow for country risks also include exposures with higher credit ratings.

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

	31.12.2007			31.12.2006		
in € million	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	**Total**
Carrying amount before individual impairment provisions						
Credit ratings 1-5	0.0	5.2	5.2	0.0	5.3	**5.3**
Credit rating 6	0.0	11.0	11.0	0.0	26.9	**26.9**
Credit rating 7	0.0	4.3	4.3	0.0	6.1	**6.1**
Total	**0.0**	**20.5**	**20.5**	**0.0**	**38.3**	**38.3**
Individual impairment provisions						
Credit ratings 1-5	0.0	3.1	3.1	0.0	2.8	**2.8**
Credit rating 6	0.0	6.8	6.8	0.0	4.9	**4.9**
Credit rating 7	0.0	2.6	2.6	0.0	4.0	**4.0**
Total	**0.0**	**12.5**	**12.5**	**0.0**	**11.7**	**11.7**
Carrying amount after individual impairment provisions	**0.0**	**8.0**	**8.0**	**0.0**	**26.6**	**26.6**

Within the scope of its loan impairment and other credit risk provisioning HSBC Trinkaus & Burkhardt also sets up provisions for anticipated losses for individual financial guarantees and loan commitments: these amounted to €6.6 million (2006: €10.0 million) in the year under report.

In addition to individual impairment provisions, the Bank also carries out collective impairment provisions. These stood at €3.7 million (2006: €5.1 million) for loans and advances and to €0.9 million (2006: €0.9 million) for financial guarantees and loan commitments.

Credit-related impairments on financial investments came to €7.1 million in the year under report (2006: €9.1 million).

h) Information on collateral held

As regards loans and advances which have been individually impaired, collateral and other credit enhancements in the form of guarantees, transfers of title as security as well as assignments are held, the value of which totalled €4.3 million (2006: €5.4 million) in the year under report.

i) Realisation of collateral held and drawing on other credit enhancements

Collateral held and other credit enhancements amounting to €0.9 million were realised and drawn on, respectively, in the 2007 financial year (2006: €0.0 million).

j) Information on credit risk concentration

There can be a concentration of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region as a result of which their ability to fulfil their financial obligations to HSBC Trinkaus & Burkhardt is influenced equally by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region.

As of the balance sheet date the Bank's theoretical maximum exposure to credit risks break down as follows:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by sector				
Banks and financial institutions	12,909.8	51.3	13,376.3	58.6
Companies and self-employed professionals	10,885.3	43.3	7,838.9	34.4
Public sector	736.3	2.9	909.4	4.0
Employed private individuals	635.9	2.5	673.1	3.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by region				
Domestic	13,987.9	55.6	13,268.7	58.2
Other EU (including Norway and Switzerland)	9,857.7	39.2	8,201.8	36.0
North America	470.7	1.9	537.6	2.4
Asia	435.3	1.7	434.8	1.9
South America	309.3	1.2	274.0	1.2
Rest of Europe	61.7	0.2	43.3	0.2
Africa	39.4	0.2	28.0	0.1
Oceania	5.3	0.0	9.5	0.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

The breakdown by sector shows that loans and advances are made predominantly to banking organisations and financial institutions.

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

Basel II

The Basel II framework, which was adopted into national law in 2006 via the introduction of the German Solvency Regulation (Solvabilitätsverordnung), is focused on the amendment of the regulatory equity capital requirements for the lending business. HSBC Trinkaus & Burkhardt made use of the transitional regulation of the Solvency Regulation and implemented the IRB approach with effect from 1 January 2008. The IRB approach leads to the highly differentiated consideration and quantification of risk. By introducing the IRB approach, the Bank controls the risk sensitivity of its portfolio in compliance with the capital adequacy requirements. Credit risk management is an integral part of risk-adjusted controlling throughout the Bank.

The Basel II requirements were implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel-II-compliant client rating system in 2005. The examination for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and there were no serious findings. The examination of the calculation of the capital requirements as well as for the final approval of the rating systems by the German banking supervisory authorities is planned for May 2008.

The Bank is still working closely together with the HSBC Group as regards the application of Basel-II-compliant methods, systems and processes. In doing so it benefits significantly from the international transfer of know-how between the Group's various units.

We focused in 2007 not only on revising the examination results and optimising the rating processes and data quality, but also on implementing standard software for equity capital backing and for generating supervisory reports. All of the necessary processes have been running without any significant problems since 1 January 2008. All of the requirements for the first report according to the new law have been implemented on time.

Operational risk

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

HSBC Trinkaus & Burkhardt has always attached major importance to the reduction of operational risks to an acceptable level while taking the costs involved into consideration. The operational risks committee is the central body responsible for the control of operational risks as well as reputational risks across the board within the Bank. The Chairman of the committee is the Management Board member responsible for risk controlling. The committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank.

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

The operational risks identified within the scope of this self-assessment are weighted according to their loss potential and the likelihood of their occurrence before taking into account any risk reduction measures taken in order to determine the absolute inherent risk. On this basis, risks are then assigned to one of five risk categories, explicitly allowing for the control environment already implemented. If the committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. It can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

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

As the Group-wide coordinator, the secretary of the operational risks committee initiates and monitors the implementation of the committee's decisions in the Bank including its subsidiaries. In collaboration with the HSBC Group, the methods, concepts and instruments of operational risk management are constantly refined and developed further.

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

A further significant instrument in the identification and observation of operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus & Burkhardt are involved. All operational problems that lead to significant loss of profit, or which could have done so under unfavourable conditions, must be reported to the committee's office. This ensures that each (potential) incident is analysed to establish whether the error was an isolated occurrence or is likely to recur. The committee then decides on any measures necessary to reduce that risk. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

The Supervisory Board is informed once a year about the activities of the operational risks committee. This also includes a statement of overall losses including an explanation of particular occurrences.

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

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The committee's work has generated significantly greater awareness of operational risk among all Bank staff in recent years. As a formal organisational unit within the Bank, the committee provides a central contact point for all issues relating to operational risk as well as reputational risks.

Operational risk is minimised at HSBC Trinkaus & Burkhardt by the constant control of working processes, security measures and not least by the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes in the Bank are regularly analysed and improved on an on-going basis. Flat hierarchies and direct communication mean that problems can be quickly removed and the risk therefore reduced.

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

Market risk

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

To measure market risks in our trading book under normal market conditions we have used for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99% probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 4 of the consolidated financial statements for the valuation of the financial instruments included in the model). Interest rate risk embraces both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for trading activities. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits (including limits for sensitivities and special stress scenarios).

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

in € million	2007			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	9.2	7.2	4.8	10.7
Currency-related transactions	1.0	0.3	0.1	1.4
Equity/index-related transactions	3.6	5.4	3.0	9.7
Total potential market risk in the trading portfolio	**10.2**	**8.9**	**5.4**	**12.1**

in € million	2006			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	5.2	4.8	3.3	6.8
Currency-related transactions	0.3	0.4	0.1	1.0
Equity/index-related transactions	4.7	4.1	2.3	6.4
Total potential market risk in the trading portfolio	**7.6**	**6.4**	**3.4**	**9.1**

The model, with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to HSBC Trinkaus & Burkhardt AG's trading book pursuant to the Solvency Directive. The model-specific add-on factor currently amounts to 3.2. Specific risks as well as commodities risks are covered through the standard approach for regulatory purposes.

We also use the internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries within the scope of an outsourcing service contract.

For risk assessment quality assurance purposes we also conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In 2007, no back-testing anomalies were found anywhere throughout the Bank, a fact which suggests that the risk modelling employed is probably still on the conservative side.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into the model. Alongside the use of limits, we also counteract high levels of uncertainty in the valuation of positions in illiquid markets by making adequate valuation adjustments. The disruption in the market for AMS products as a result of the subprime crisis in the USA has highlighted the extent to which fluctuations in the prices of financial instruments can depend on market liquidity. The subprime crisis has not resulted in any notable burdens for HSBC Trinkaus & Burkhardt as it holds almost no ABS positions.

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the asset and liability management committee on the basis of their capacity to assume risk. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings overall, it was not necessary to reduce the risk limits in the latest financial year on overall Bank level. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the long-term investments (99% confidence interval/10-day holding period) came to €3.2 million (2006: €2.0 million). Market risks in the Bank's investment book are determined outside the risk models and are controlled at executive management level.

Liquidity risk

We understand liquidity risk as the danger of insolvency. We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities.

Trading assets are mainly self-financed by the trading department by taking up or issuing structured promissory note loans, bonds and certificates. Demand deposits and time deposits by customers are reinvested, despite a high level of core deposits in short-dated money market securities of the HSBC Group, as financial security within the scope of securities lending transactions to finance short-date forward buying by customers or in the inter-bank money market. Almost all bonds in the investment portfolio, as well as significant amounts of bonds in the trading portfolio, are eligible as collateral with the German Bundesbank as well as various clearing institutions. This fully covers the needs of our various business activities. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007.

The Bank's structural liquidity position is determined and managed by the asset and liability management committee and also coordinated with HSBC. As part of the control process, the balance sheet structure and key liquidity ratios are constantly monitored and liquidity commitment reports with various scenarios employed periodically.

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

31.12.2007					
			Gross outflow (undiscounted)		
in € million	Carrying amount	∑	< 3 months	3 to 12 months	> 12 months
Deposits by banks	2,532.7	2,559.4	2,318.3	48.5	192.6
Customer accounts	10,283.2	10,403.8	9,732.0	169.3	502.5
Certificated liabilities	10.0	13.9	0.4	0.0	13.5
Trading liabilities	6,488.4	6,963.2	4,128.5	518.9	2,315.8
of which derivatives	1,642.0	1,845.0	349.9	460.5	1,034.6
Provisions	112.4	117.2	105.3	0.0	11.9
Other liabilities	110.2	114.8	71.9	6.5	36.4
Subordinated capital	458.7	688.5	3.1	20.4	665.0
Loan commitments	3,704.3	3,704.3	3,704.3	0.0	0.0
Total	**23,699.9**	**24,565.1**	**20,063.8**	**763.6**	**3,737.7**

31.12.2006					
			Gross outflow (undiscounted)		
in € million	Carrying amount	∑	< 3 months	3 to 12 months	> 12 months
Deposits by banks	1,495.7	1,506.2	1,441.2	30.9	34.1
Customer accounts	8,861.4	8,965.2	8,438.2	114.6	412.4
Certificated liabilities	29.8	31.4	0.0	20.2	11.2
Trading liabilities	6,683.6	7,228.7	4,166.3	420.0	2,642.4
of which derivatives	1,664.3	1,935.3	255.8	332.3	1,347.2
Provisions	113.0	126.6	0.0	60.1	66.5
Other liabilities	105.4	109.5	30.6	53.4	25.5
Subordinated capital	440.6	653.5	5.1	10.3	638.1
Loan commitments	3,701.1	3,701.1	3,701.1	0.0	0.0
Total	**21,430.6**	**22,322.2**	**17,782.5**	**709.5**	**3,830.2**

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance sheet date. It is to be taken into consideration, though, that liabilities do not necessarily have to be repaid at the earliest possible point in time and that several of the uncalled loan commitments are not drawn on.

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

Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we are therefore not planning to introduce an internal model for liquidity risk at present. The tensions on the money markets resulting from the subprime crisis highlight the importance of responsible liquidity management. The Bank has not entered into any obligations arising from liquidity lines for SPVs. Our defensive business policy approach has proven itself in the crisis and is also to be upheld in the future.

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

in € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	3,365.1	751.5	0.4	0.0	4,117.0
	31.12.2006	4,411.8	28.3	0.0	0.0	4,440.1
Customer accounts	31.12.2007	3,297.6	583.7	391.6	0.0	4,272.9
	31.12.2006	2,546.5	291.8	334.8	0.0	3,173.1
Trading assets	31.12.2007	10,436.8	0.0	0.0	0.0	10,436.8
	31.12.2006	9,044.0	0.0	0.0	0.0	9,044.0
Financial assets	31.12.2007	74.7	209.8	758.7	525.0	1,568.2
	31.12.2006	258.5	93.7	740.5	334.9	1,437.6
Other assets	31.12.2007	25.6	19.8	0.0	31.9	77.3
	31.12.2006	54.5	4.3	0.0	9.8	68.6
Total	**31.12.2007**	**17,199.8**	**1,564.8**	**1,150.7**	**556.9**	**20,472.2**
	31.12.2006	**16,315.3**	**418.1**	**1,075.3**	**354.7**	**18,163.4**

In € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	2,316.9	47.4	168.4	0.0	2,532.7
	31.12.2006	1,437.3	30.2	28.2	0.0	1,495.7
Customer accounts*	31.12.2007	9,708.1	165.8	409.3	0.0	10,283.2
	31.12.2006	8,417.2	112.2	332.1	0.0	8,861.4
Certificated liabilities	31.12.2007	0.0	0.0	10.0	0.0	10.0
	31.12.2006	0.0	19.8	10.0	0.0	29.8
Trading liabilities**	31.12.2007	6,488.4	0.0	0.0	0.0	6,488.4
	31.12.2006	6,683.6	0.0	0.0	0.0	6,683.6
Provisions	31.12.2007	105.3	0.0	7.1	0.0	112.4
	31.12.2006	0.0	58.8	54.2	0.0	113.0
Other liabilities	31.12.2007	71.4	6.3	32.5	0.0	110.2
	31.12.2006	30.4	52.2	22.8	0.0	105.4
Subordinated capital	31.12.2007	0.0	0.0	458.7	0.0	458.7
	31.12.2006	5.1	10.1	425.4	0.0	440.6
Total	**31.12.2007**	**18,690.1**	**219.5**	**1,086.0**	**0.0**	**19,995.6**
	31.12.2006	**16,573.6**	**283.2**	**872.7**	**0.0**	**17,729.5**

* Customer deposits include savings deposits for the first time. The prior-year figures have been adjusted accordingly.
** Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 57.

Staff

Number of employees

The number of employees increased during 2007 by 209 compared to the previous year to a total of 1,828 at the end of the year. Eight trainees completed their banking qualifications and ten passed their examinations in office communications in the year under report. Two trainees also successfully completed their training in information technology. At the end of 2007 we were paying retirement, widow's and orphan's pensions to 546 recipients, compared to 533 at the end of the previous year.

Advanced training

In view of the demographic trend and the extremely high demands we at the Bank make of ourselves, the professional and social skills of our employees are of the utmost importance in two respects. Only with qualified and motivated personnel can we meet our clients' exacting quality standards in the long term. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing individual in-house product-specific training for both client-related and various specialist areas of the Bank, leadership and acquisition seminars and communication training. Our advanced training activities are rounded off by specialised study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we pay close attention to the special requirements made of our employees in the various areas of our business.

Performance-related remuneration

Performance-related remuneration remains of major importance for motivating our staff, regardless of whether they are tariff or non-tariff employees. The incentive provided for our managerial staff in the form of a profit participation scheme is to be pointed out here in particular.

Thanks

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

Shareholders and Shares

Capital

At 31 December 2007 the Bank's issued share capital was €70.0 million divided into 26.1 million no-par value shares. 52% of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

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

Share price and market value

During 2007 our share price rose 8.6% to €114.00. The lowest fixing price of the year was €101.00 and the highest €122.50. From the initial issue price of DM190 per DM50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in € million
31.12.1985	18,000,000	17.6	317.5
31.12.1990	22,000,000	19.8	435.3
31.12.1995	23,500,000	30.6	718.5
31.12.2000	26,100,000	110.0	2,871.0
31.12.2005	26,100,000	87.5	2,283.8
31.12.2006	26,100,000	105.0	2,740.5
31.12.2007	26,100,000	114.0	2,975.4

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

Dividends

For the 2007 financial year we propose paying a dividend of €2.50 per share (2006: €2.50 per share). With a dividend total of €65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2007.

Consolidated Financial Statements

Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

Assets in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Cash reserve	(19)	332.3	436.3	-104.0	-23.8
Loans and advances to banks	(4, 20)	4,117.0	4,440.1	-323.1	-7.3
Loans and advances to customers	(4, 21)	4,272.9	3,173.1	1,099.8	34.7
Net loan impairment provisions	(6, 22)	-16.2	-17.0	0.8	4.7
Trading assets	(4, 23)	10,436.8	9,044.0	1,392.8	15.4
Financial assets	(4, 24)	1,568.2	1,437.6	130.6	9.1
Interests in associates	(25)	15.2	1.5	13.7	> 100.0
Property, plant and equipment	(9, 26)	196.3	80.4	115.9	> 100.0
Intangible assets	(10, 26)	12.3	9.3	3.0	32.3
Income tax assets	(14, 27)	54.8	2.5	52.3	> 100.0
current		54.8	2.5	52.3	> 100.0
deferred		0.0	0.0	0.0	0.0
Other assets	(28)	77.3	68.6	8.7	12.7
Total assets		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Liabilities in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Deposits by banks	(4, 31)	2,532.7	1,495.7	1,037.0	69.3
Customer accounts	(4, 32)	10,283.2	8,861.4	1,421.8	16.0
Certificated liabilities	(33)	10.0	29.8	-19.8	-66.4
Trading liabilities	(4, 34)	6,488.4	6,683.6	-195.2	-2.9
Provisions	(13, 35)	112.4	113.0	-0.6	-0.5
Income tax liabilities	(14, 36)	106.2	62.0	44.2	71.3
current		48.4	25.7	22.7	88.3
deferred		57.8	36.3	21.5	59.2
Other liabilities	(37)	110.2	105.4	4.8	4.6
Subordinated capital	(38)	458.7	440.6	18.1	4.1
Shareholders' equity	(39)	965.1	884.9	80.2	9.1
Share capital		70.0	70.0	0.0	0.0
Capital reserve		212.9	211.4	1.5	0.7
Retained earnings		486.7	481.8	4.0	0.8
Consolidated profit available for distribution		195.5	121.7	73.8	60.6
Total equity and liabilities		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Consolidated Income Statement
HSBC Trinkaus & Burkhardt

Income statement in € million	(Notes)	2007	2006	Change	
				in € million	in %
Interest income		448.4	285.1	163.3	57.3
Interest expense		338.4	196.5	141.9	72.2
Net interest income	(41)	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	(6, 43)	-3.5	-5.2	1.7	-32.7
Share of profit in associates	(42)	6.4	2.5	3.9	> 100.0
Fee income		620.7	520.4	100.3	19.3
Fee expenses		302.6	238.6	64.0	26.8
Net fee income	(44)	318.1	281.8	36.3	12.9
Net trading income	(45)	100.1	104.0	-3.9	-3.8
Administrative expenses	(46)	333.4	298.6	34.8	11.7
Net income from financial assets	(47)	1.9	6.5	-4.6	-70.8
Net other income/expenses	(48)	1.2	-0.5	1.7	> 100.0
Profit before taxes		**207.8**	**189.5**	**18.3**	**9.7**
Tax expense	(49)	63.4	74.9	-11.5	-15.4
Net profit for the year		**144.4**	**114.6**	**29.8**	**26.0**
Profit brought forward		51.1	7.1	44.0	> 100.0
Consolidated profit available for distribution		**195.5**	**121.7**	**73.8**	**60.6**
Dividend distribution		65.3	65.3	0.0	0.0
Retained earnings and profit brought forward		**130.2**	**56.4**	**73.8**	**> 100.0**

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €2.50 per share (2006: €2.50 per share).

Earnings per share

	2007	2006
Net profit for the year in € million	144.4	114.6
Profit attributable to minority interests in € million	0.0	0.0
Net profit for the year after minority interests in € million	144.4	114.6
Average number of shares in circulation (in million)	26.1	26.1
Earnings per share in €	**5.53**	**4.39**
Undiluted earnings per share in €	**5.53**	**4.39**

As in 2006, there were no option and conversion rights outstanding for the purchase of shares in the 2007 financial year. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled undiluted earnings per share.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 17) had a material impact on earnings per share.

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in € million	Share capital	Capital reserve	Retained earnings	Consolidated profit available for distribution	Minority interests	Equity
At 31.12.2005	**70.0**	**211.0**	**430.9**	**122.7**	**0.0**	**834.6**
Dividend distribution				-65.3		-65.3
Retention from 2005 profit available for distribution			50.3	-50.3		0.0
Currency translation differences			0.0			0.0
Addition from net profit for the year				114.6		114.6
Gains/losses not recognised in the income statement			0.6			0.6
Share option scheme		0.4				0.4
At 31.12.2006	**70.0**	**211.4**	**481.8**	**121.7**	**0.0**	**884.9**
Dividend distribution				-65.3		- 65.3
Retention from 2006 profit available for distribution			5.3	-5.3		0.0
Currency translation differences						0.0
Addition from net profit for the year				144.4		144.4
Gains/losses not recognised in the income statement			-1.0			-1.0
Effect on equity of first-time consolidation at equity			0.6			0.6
Share-based payments		1.5				1.5
At 31.12.2007	**70.0**	**212.9**	**486.7**	**195.5**	**0.0**	**965.1**

Comprehensive income for the period

in € million	2007	2006
Net profit for the year	144.4	114.6
Gains/losses not recognised in the income statement	-1.0	0.6
of which from financial instruments	-12.4	-5.3
of which from actuarial results	11.4	5.9
Total	**143.4**	**115.2**

See Note 39 on the development of unrealised gains/losses from financial instruments.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in € million	2007	2006
Net profit for the year	144.4	114.6
Non-cash items in net profit and adjustments to reconcile net profit to net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	36.6	61.1
Net profit from sale of equity-linked financial investment instruments, property and equipment	0.0	-0.1
Other adjustments (net)	-52.0	4.5
Sub-total	129.0	180.1
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	323.1	-1,129.7
Loans and advances to customers	-1,102.1	-695.9
Securities held for trading	-1,588.0	-635.6
Other assets	-179.5	-26.1
Liabilities	2,459.1	1,977.9
Certificated liabilities	-19.8	-4.8
Other liabilities	5.0	-52.6
Total adjustments	-102.2	-566.8
Interest received	446.8	276.1
Dividends received	8.0	11.5
Interest paid	-338.5	-196.5
Income taxes paid	-54.8	-119.1
Cash flows from operating activities	**88.3**	**-414.7**
Proceeds from sale of		
Equity-linked financial investment instruments	0.1	1.5
Property, plant and equipment	1.0	1.4
Purchase of		
Equity-linked financial investment instruments	-15.0	-2.4
Property, plant and equipment	-131.3	-15.2
Effects of changes in the group of consolidated companies	0.0	0.0
Cash flows from investing activities	**-145.2**	**-14.7**
Dividends paid	-65.3	-65.3
Adjustments to subordinated capital	18.2	132.4
Cash flows from financing activities	**-47.1**	**67.1**
Cash and cash equivalents at beginning of year	**436.3**	**798.6**
Cash flows from operating activities	88.3	-414.7
Cash flows from investing activities	-145.2	-14.7
Cash flows from financing activities	-47.1	67.1
Cash and cash equivalents at end of year	**332.3**	**436.3**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2007 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Section 315a (1) of the German Commercial Code (HGB) has also been taken into consideration.

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

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

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

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

At the end of 2007, HSBC Holdings plc had an indirect interest of 78.6% in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

The consolidated financial statements include as subsidiaries all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it exercises a controlling influence. In addition, we have fully consolidated three special funds (2006: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 61.

HSBC Trinkaus Consult GmbH, Düsseldorf, and Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH, Düsseldorf are no longer included within the scope of consolidation.

The following companies–Deutscher Pension Trust GmbH, Trinkaus Immobilien-Fonds Verwaltungs-GmbH, Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG and Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH–all of which have registered offices in Düsseldorf, were established during the financial year under report and are therefore included for the first time within the scope of consolidation.

HSBC Trinkaus also increased its stake in SINO AG, Düsseldorf, to 25.13% initially as at 31 March 2007 and finally to 26.59% as at 7 December 2007. SINO AG is therefore recognised for the first time in the year under report as an associated company consolidated at equity.

2 Consolidation Principles

In accordance with IAS 27.28, the accounting policies were applied consistently throughout the Group.

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

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

3 Foreign Currency Translation

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

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

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

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. Translation gains or losses arising from capital consolidation are offset against the Group’s retained earnings. Translation differences recognised in, or without effect on, the income statement had no significant impact in the 2007 financial year, as in the previous year.

4 Financial Instruments

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

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If all opportunities and risks are not transferred, recognition is at the amount of the residual risk position, if we continue to exercise control over the financial instrument (continuing investment).

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

Where it is necessary pursuant to IAS 39 to split hybrid financial instruments into the host contract and the derivative portion (embedded derivative), we have recorded the derivative separately in the balance sheet.

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

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

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

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

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

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

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present value methods and option price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters imposed are as differentiated as possible–for example, according to lifetimes, strike prices, etc. The choice of data sources used plus the allocation of measurement parameters and applicable valuation method for the financial instruments in question is independent of trading. As long as 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. Hence, there is no distribution over the transaction term. All realised profits and losses, as well as the unrealised measurements results, are reported under net trading income.

b) Held-to-maturity investments

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

c) Loans and receivables

The "loans and receivables" category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here which, owing to the short-term intention of the category to resell the assets, are allocated at fair value or to the financial assets from the very outset. The corresponding loans and receivables are measured at amortised cost. Discounts and premiums are recorded proportionately within interest income. Impairments on loans and receivables are reported under risk provisions for loans and advances.

d) Financial assets available-for-sale

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

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

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

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

e) Other Liabilities

The "other financial liabilities" category includes all financial liabilities that were not allocated to the "fair value" category. They are therefore not measured at fair value through the income statement, but at amortised cost: as a rule, other financial liabilities are carried at their settlement amount. Discounts and premiums are recognised proportionately within interest expense. Non-interest-bearing liabilities, such as zero coupon bonds, are measured at their interest rate as at the balance sheet date.

5 Hedge Accounting

There were no hedging relationships pursuant to IAS 39 (hedge accounting) as at the balance sheet date.

6 Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions as risk provisions for loans and advances on the assets side, and as provisions for credit risks on the liabilities side. Net loan impairment provisioning differentiates between individual impairment provisions and collective impairment provisions.

Individual impairment provisions in relation to on-balance-sheet items and off-balance-sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 ratio categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on the financial position in the consolidated Financial Statements for further explanations–especially on calculating write-downs/provisions.

Furthermore, write-downs/provisions are created on a collective basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general write-down/provision will then be calculated for each of these portfolios on the basis of historical default probabilities.

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

7 Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities instead of deposits by banks as in the past (cf. Note 34). The prior-year figure was adjusted accordingly.

Similarly, the outflow of liquidity arising from reverse repos is reported for the first time in the year under report under the balance sheet item trading assets, instead of as loans and advances to banks or clients (cf. Note 23). This facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

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

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported for the first time in the year under report under the balance sheet items trading assets or trading liabilities, instead of under loans and advances to banks or customers, or deposits by banks (cf. Notes 23 and 34).

8 Interests in Associates

Our interest in International Transactions Services GmbH (ITS), a joint venture with T-Systems Enterprise Services GmbH, and for the first time SINO AG, is reported under interests in associates.

9 Property, Plant and Equipment

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

Land and buildings are used almost entirely for the banking business. Additionally, properties that are held for investment purposes and are generally marketed within the framework of property funds are reported under this item.

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

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

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

In 2007 there was an increase in non-scheduled write-downs on the value of property and buildings totalling €0.1 million (2006: €0.0 million) which is disclosed under net other income/expenses (cf. Note 48). There were no write-ups in the year under report (2006: €0.2 million). Non-scheduled write-downs are made on the basis of the annual valuations and always reflect the change in the economic valuation of a property. For the purposes of segment reporting, non-scheduled depreciation is allocated to “central divisions/consolidation” (cf. Note 53).

Profits/losses from the disposal of property, plant and equipment totalling €0.1 million (2006: €0.3 million) were shown in net other income/expenses (cf. Note 48). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

10 Intangible Assets

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

11 Leasing

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

12 Treasury Bonds and Shares

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

At the end of 2007, no Group company held any shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 14,861 treasury shares were bought at an average price of €113.38 (2006: €87.34) and sold at an average price of €115.01 (2006: €87.82). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.03% (2006: 0.73%) of the nominal capital.

13 Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

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

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

14 Income Tax Assets and Liabilities

Current income taxes are calculated in accordance with the tax rates applicable for each individual company. Current income tax assets are offset against current income tax liabilities provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred income taxes are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations that are used for the taxation of the Group company in question. Deferred tax assets or deferred tax liabilities must be taken into consideration regardless of when the realignment of the valuations occurs. The deferred taxes are calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates–such as brought about by the German business tax reform passed in 2008–the balance sheet entries for deferred tax assets or deferred tax liabilities will be adjusted accordingly (cf. Note 49).

15 Share-based Payments

The Group employees have the opportunity to participate in a share option scheme offered by the parent company HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (1, 3 and 5 years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this–apportioned to the respective blocking period–are recognised in the income statement.

In addition, the performance-related remuneration components for employees and the Management Board were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in three equal amounts over the subsequent financial years and is fundamentally subject to continued service for the Bank. It is reported as a share option payment with cash settlement in accordance with IFRS 2; personnel expenses are spread over the vesting period.

The share option scheme for former Managing Partners resulting from the change of legal form to a German stock corporation will also be spread out over three years. This is also reported as share-based payments settled in the form of equity instruments.

16 Reporting of Income and Expenses

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

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

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

17 IFRS Treatment Applied

IFRS 7, Financial instruments: Disclosures, was applied for the first time in the year under report. The standard replaces the bank-specific standard used to date, namely IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions. IFRS 7 redefines the disclosure of financial instruments and bundles the reporting rules together in one standard. Furthermore, the standard contains disclosure requirements in relation to risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

The amendments to IAS 1, resulting from the adoption of IFRS 7, with regard to the presentation of capital management objectives and methods can be found in Note 39.

IFRIC 9, Reassessment of Embedded Derivatives, deals with a potential separation obligation of embedded derivatives, provided the requirements for such a split are not met at settlement but in a later period. The first-time adoption of this interpretation brought about no changes to the existing procedure.

IFRIC 10, Interim Financial Reporting and Impairment, states that a company may not reverse any impairment losses on equity instruments recognised in an earlier interim period. IFRIC was adopted for the first time in the year under report. It has not resulted in any changes to the existing procedure.

The other standards or interpretations which were applied for the first time in 2007 had no material impact.

Standard IAS 1, Presentation of Financial Statements, which was amended in 2007, governs the improved presentation in the balance sheet; furthermore, the changes serve to promote greater harmonisation with the reporting rules of US-GAAP. This should have no material effects on our financial statements.

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting. Due to the late endorsement in November 2007, we will not take the standard into consideration until the 2008 financial year. The adoption is unlikely to lead to any material changes.

IFRIC 11, IFRS 2, Group and Treasury Share Transactions, regulates the treatment of share-based remuneration within the entire Group. Interpretation will not be taken into consideration until the next financial year. As it stands, we do not anticipate any material effects from the adoption of the standard.

Other applications that are not yet obligatory in 2007 will not have any material effect on the Bank.

18 Material Events occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

19 Cash Reserve

€ million	31.12.2007	31.12.2006
Cash and cash equivalents	2.0	2.4
Balances with central banks	330.3	433.9
Total	**332.3**	**436.3**

Balances held with central banks are held mainly with the Deutsche Bundesbank and are almost exclusively in euros. The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

20 Loans and Advances to Banks

€ million	31.12.2007	31.12.2006
Current accounts	722.1	521.8
Money market transactions	3,313.5	3,665.3
of which overnight money	0.4	0.0
of which term deposits	3,313.1	3,665.3
Other loans and advances	81.4	253.0
Total	**4,117.0**	**4,440.1**
of which loans and advances to domestic banks	1,382.3	1,716.0
of which loans and advances to foreign banks	2,734.7	2,724.1

The moderate decline in loans and advances to banks is primarily due to the increase in lending to our clients. Furthermore, funds were invested increasingly by our Global Markets division in the form of certificates of deposit.

21 Loans and Advances to Customers

€ million	31.12.2007	31.12.2006
Current accounts	1,651.1	1,092.8
Money market transactions	1,025.7	943.5
of which overnight money	279.8	237.5
of which term deposits	745.9	706.0
Loan accounts	1,562.5	1,122.0
Other loans and advances	33.6	14.8
Total	**4,272.9**	**3,173.1**
of which loans and advances to domestic customers	3,128.9	2,384.5
of which loans and advances to foreign customers	1,144.0	788.6

As in the previous year, the increase in loans and advances to customers highlights the growth in our credit business, not least with our newly acquired clients.

22 Net Loan Impairment and other Credit Risk Provisions

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

€ million	31.12.2007	31.12.2006
Impairment charges / recoveries for loans and advances	16.2	17.0
Other credit risk provisions	7.5	10.9
Net loan impairments and other credit risk provisions	**23.7**	**27.9**

Impairment provisions for loans and advances relate exclusively to charges/recoveries on loans and advances to customers.

Risk provisions for loans and advances developed as follows:

	Impairment provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	11.7	21.1	5.3	5.0	17.0	26.1
Reversals	1.2	4.0	1.6	0.0	2.8	4.0
Utilisation	1.0	5.5	0.0	0.0	1.0	5.5
Additions	3.1	0.2	0.0	0.1	3.1	0.3
Currency translation/ transfers	-0.1	-0.1	0.0	0.2	-0.1	0.1
As at 31 December	**12.5**	**11.7**	**3.7**	**5.3**	**16.2**	**17.0**

Provisions for credit risks developed as follows:

	Other credit risk provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	10.0	11.7	0.9	1.5	10.9	13.2
Reversals	3.9	3.0	0.0	0.4	3.9	3.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.5	1.2	0.0	0.0	0.5	1.2
Currency translation/ transfers	0.0	0.1	0.0	-0.2	0.0	-0.1
As at 31 December	**6.6**	**10.0**	**0.9**	**0.9**	**7.5**	**10.9**

23 Trading Assets

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	6,241.9	3,978.9
of which:		
public-sector issuers	181.6	123.2
other issuers	6,060.3	3,855.7
of which:		
listed	2,976.8	2,047.7
unlisted	3,265.1	1,931.2
Equities and other non-fixed-income securities	479.4	859.0
of which:		
listed	478.5	858.8
unlisted	0.9	0.2
Tradable receivables	813.1	1,136.8
Positive market value of derivatives	1,860.6	1,905.8
of which:		
OTC-derivatives	1,311.8	1,326.4
exchange-traded derivatives	548.8	579.4
Reverse repos	214.6	342.5
Securities lending	827.2	821.0
Total	**10,436.8**	**9,044.0**

The sharp rise is primarily due to the purchase of certificates of deposit from other banks within the HSBC Group. Tradable receivables are recognised largely as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 34).

The item securities lending comprises funds we provided as collateral for borrowed securities (cf. Notes 30 and 59).

24 Financial Assets

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

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities and interest rate derivatives	886.1	929.6
of which:		
public-sector issuers	268.1	316.5
other issuers	618.0	613.1
of which:		
listed	834.5	864.6
unlisted	51.6	65.0
Equities	41.5	49.2
Investments	383.3	221.7
Promissory note loans	157.2	163.1
Interests in subsidiaries	100.1	74.0
Total	**1,568.2**	**1,437.6**

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

Financial assets include exchange-traded forward transactions in the amount of €0.3 million (2006: €0.6 million).

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

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	14.9	35.8
Equities	0.9	4.0
Investments	16.0	25.0
Promissory note loans	8.6	15.0
Interests in subsidiaries	43.4	32.2
Total	**83.8**	**112.0**

25 Interests in Associates

In the 2007 financial year, Trinkaus & Burkhardt increased its shareholding in SINO AG, Düsseldorf, to 26.59%. SINO AG is therefore recognised for the first time as an associated company consolidated at equity. The following table provides information on the development of interests in associates:

€ million	2007	2006
Book value as at 1 January	**1.5**	**0.0**
Additions	9.8	0.0
Share of results of financial year	5.4	2.5
Elimination of interim result	1.0	0.5
Dividend distribution	-2.5	-1.5
Book value as at 31 December	**15.2**	**1.5**

The book value of the publicly listed investments acquired this year amounts to €9.8 million; the market value of these investments is €11.1 million.

26 Investment Overview - Property, Plant and Equipment and Intangible Assets

€ million	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 1.1.2007	94.1	50.9	145.0	29.7
Increases	115.4	10.0	125.4	5.8
Reversals	0.0	5.1	5.1	0.0
Acquisition costs as at 31.12.2007	209.5	55.8	265.3	35.5
Depreciation as at 1.1.2007	32.5	32.0	64.5	20.4
Scheduled depreciation	1.3	7.2	8.5	2.8
Non-scheduled depreciation	0.1	0.0	0.1	0.0
Depreciation of reversals	0.0	4.1	4.1	0.0
Depreciation as at 31.12.2007	33.9	35.1	69.0	23.2
Carrying amount as at 31.12.2007	**175.6**	**20.7**	**196.3**	**12.3**
Carrying amount as at 31.12.2006	**61.5**	**18.9**	**80.4**	**9.3**

We reported for the first time in the year under report a property that is not mainly owner-occupied under land and property. This property was acquired for €115.2 million in December 2007 and will be marketed within the framework of a property fund.

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

27 Income Tax Assets

€ million	31.12.2007	31.12.2006
Current income tax assets	54.8	2.5
Deferred income tax assets	0.0	0.0
Total	**54.8**	**2.5**

The receivables from current income taxes relate predominantly to domestic taxes.

28 Other Assets

Other assets of €77.3 million (2006: 68.6 million) consist mainly of excess cover from our CTA of €31.9 million (2006: €9.8 million), as well as other taxes of €4.9 million (2006: €3.8 million).

29 Subordinated Assets

The following overview shows the composition of our subordinated assets:

€ million	31.12.2007	31.12.2006
Loans and advances to customers	0.0	0.1
Bonds and other fixed-income securities	143.5	108.1
Profit-participation certificates	28.4	27.3
Total	**171.9**	**135.5**

30 Repurchase Agreements

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

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

€ million	31.12.2007		31.12.2006	
Type of transaction	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.2
Securities lending transactions	25.7	0.0	78.5	206.6
Total	**25.7**	**0.0**	**78.5**	**206.8**

The following table provides an overview of the securities received, including the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

€ million	31.12.2007		31.12.2006	
Type of transaction	Fair value of the transferred financial assets	Carrying amount of the associated receivables	Fair value of the transferred financial assets	Carrying amount of the associated receivables
Repurchase agreements	243.6	214.6	364.6	342.5
of which may be sold or pledged	158.9		194.9	
of which are already sold or pledged	84.7		169.7	
Securities lending transactions	1,623.9	827.2	1,611.1	821.0
of which may be sold or pledged	1,036.4		924.8	
of which are already sold or pledged	587.5		686.3	
Total	**1,867.5**	**1,041.8**	**1,975.7**	**1,163.5**

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 59).

The relevant transactions were carried out at normal market conditions.

31 Deposits by Banks

€ million	31.12.2007	31.12.2006
Current accounts	611.2	549.5
Money market transactions	1,750.3	765.6
of which overnight money	603.2	136.5
of which term deposits	1,147.1	629.1
Other liabilities	171.2	180.6
Total	**2,532.7**	**1,495.7**
of which deposits by domestic banks	1,346.5	618.3
of which deposits by foreign banks	1,186.2	877.4

As at 31 December 2007, deposits by banks secured by charges on real property amounted to €20.5 million (2006: €21.5 million).

32 Customer Accounts

€ million	31.12.2007	31.12.2006
Current accounts	5,283.9	3,905.2
Money market transactions	4,523.4	4,527.6
of which overnight money	607.1	1,238.5
of which term deposits	3,916.3	3,289.1
Savings deposits	13.2	13.6
Other liabilities	462.7	415.0
Total	**10,283.2**	**8,861.4**
of which liabilities to domestic customers	7,462.8	6,407.7
of which liabilities to foreign customers	2,820.4	2,453.7

The increase in customer accounts is the result essentially of a strong inflow of funds from institutional clients and investment funds.

33 Certificated Liabilities

Securitised liabilities relate to bond issues in the amount of €10.0 million (2006: €29.8 million).

34 Trading Liabilities

€ million	31.12.2007	31.12.2006
Negative market value of derivatives	1,642.0	1,664.3
Discount certificates, promissory note loans, bonds and warrants	4,291.8	4,692.1
Delivery obligations from securities sold short	554.6	120.4
Repurchase transactions	0.0	0.2
Securities lending transactions	0.0	206.6
Total	**6,488.4**	**6,683.6**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions. These issues are accordingly recognised as trading liabilities pursuant to IAS 39, and are valued at their fair value. The decline in the negative market value of the derivatives corresponds with the falling positive market value of the derivatives (cf. Note 23).

Funds that we received as security pledged for borrowed securities are reported under securities lending transactions.

35 Provisions

€ million	As at 1.1.2007	Utilisation	Reversals	Additions	Transfers	Actuarial result	As at 31.12.2007
Provisions related to human resources	58.8	45.5	0.8	59.6	-8.2	0.0	63.9
Provisions for pensions and similar obligations	10.4	4.8	0.0	0.7	22.1	-21.3	7.1
Provisions for credit risks	10.9	0.0	3.9	0.5	0.0	0.0	7.5
Provisions for other taxes	3.0	0.2	0.0	0.0	0.0	0.0	2.8
Other provisions	29.9	4.5	5.1	10.7	0.1	0.0	31.1
Total provisions	**113.0**	**55.0**	**9.8**	**71.5**	**14.0**	**-21.3**	**112.4**

The additions to plan assets and the change in the plan surplus are shown in the transfers column. Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

Provisions for Pensions and Similar Obligations

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

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

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6% and 7.5% interest, respectively.

Additionally, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost €4.0 million in the year under report (2006: €3.7 million).

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

in %	31.12.2007	31.12.2006
Long-term base rate of interest	5.5	4.5
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	6.0	6.0

Due to higher yields from first-class fixed-interest industrial bonds, the base interest rate was increased to 5.5%.

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2008 as there were no major deviations between the expected and actual returns in the funds in the year under report.

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

Development of Pension Obligations

€ million	2007	2006
Pension obligations as at 1 January	**197.2**	**202.8**
Service cost	4.3	7.4
Interest expense	8.8	7.4
Pensions paid	-10.6	-9.7
Transfers and others	0.0	-0.2
Change in actuarial gains and losses	-22.8	-10.5
Pension obligations as at 31 December	**176.9**	**197.2**

Breakdown of Pension Obligations

€ million	2007	2006	2005	2004	2003
Non-funded pension obligations	**4.3**	**4.8**	**4.8**	**172.9**	**147.3**
Funded pension obligations					
Present value of pension obligations	172.6	192.4	198.0	0.0	0.0
Fair value of plan assets	201.7	196.6	181.6	0.0	0.0
Balance	-29.1	-4.2	16.4	0.0	0.0
of which plan shortfall	**2.8**	**5.6**	**16.4**	**0.0**	**0.0**
of which plan excess	31.9	9.8	0.0	0.0	0.0
Total pension obligations	**7.1**	**10.4**	**21.2**	**172.9**	**147.3**
of which actuarial gains and losses					
from plan assets	-1.1	0.4	1.2	0.0	0.0
from plan obligations	-16.2	-39.0	-49.5	-25.9	-7.9

Development of the Fair Value of Plan Assets

€ million	2007	2006
Fair value of plan assets as of 1 January	**196.6**	**181.6**
Additions/withdrawals	-5.8	5.4
Estimated income from the plan assets	12.4	10.4
Change in actuarial gains and losses	-1.5	-0.8
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The actual income from plan assets in the year under review amounted to €10.9 million (2006: €9.6 million). It is expected that no contributions will be paid into the plan in 2008, as in 2007.

Breakdown of the Fair Value of Plan Assets

€ million	2007	2006
Bonds and other fixed-income securities	96.4	110.3
Equities	49.0	45.5
Investment funds	29.3	17.3
Reinsurance claims from life insurances	12.7	11.3
Closed-end property funds	4.0	4.0
Other	10.3	8.2
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to €11.7 million after taxes (2006: €23.3 million). The decline is the result above all of the increase in the long-term interest rate calculated the previous year.

The provisions for risks from the credit business include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of the net loan impairment provisions (cf. Note 22).

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

Other provisions include above all provisions for anticipated losses and provisions for contingent liabilities.

36 Income Tax Liabilities

€ million	31.12.2007	31.12.2006
Current income tax liabilities	48.4	25.7
Deferred income tax liabilities	57.8	36.3
Total	**106.2**	**62.0**

Current income tax liabilities include provisions for income taxes to be paid to the fiscal authorities on the basis of the tax accounts of the fully consolidated Group companies; provisions for any income taxes to be paid as a result of current and future audits are also reported under this item.

The deferred taxes are our future tax burdens or relief formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 49).

As in the previous year, deferred tax refund claims are offset against income tax liabilities if the prerequisites for offsetting exist.

The deferred income tax assets and liabilities are attributable to the following items:

€ million	31.12.2007	31.12.2006	Change
	As shown in the balance sheet		
Trading portfolio*	50.1	24.1	26.0
Share-based payments	6.1	3.1	3.0
Financial assets	4.8	3.9	0.9
Net loan impairment and other credit risk provisions	3.6	3.6	0.0
Intangible assets	0.4	0.0	0.4
Joint ventures	0.0	6.0	-6.0
Buildings	-0.9	-1.0	0.1
Provisions	-3.5	-3.3	-0.2
Pensions	-5.0	-8.2	3.2
Recognised in the income statement	**55.6**	**28.2**	**27.4**
Financial assets	7.6	23.4	-15.8
Pensions	-5.4	-15.3	9.9
With effect on equity	**2.2**	**8.1**	**-5.9**
Deferred tax liabilities	**57.8**	**36.3**	**21.5**

*Balance from measurement differences in all trading activities

The reduction in tax rates due to the 2008 corporate tax reform must be incorporated when calculating the deferred taxes (cf. Note 49). Financial instruments, whose fluctuations are recognised in shareholders' equity, yield a tax credit of €2.0 million. The additional tax burden for the actuarial result from the pensions is €1.4 million.

37 Other Liabilities

€ million	31.12.2007	31.12.2006
Liabilities from other taxes	29.0	28.1
Deferred income	24.7	12.2
Accrued interest on		
subordinated liabilities	8.3	8.1
profit-participation certificates	7.4	3.8
Other	40.8	53.2
Total	**110.2**	**105.4**

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

38 Subordinated Capital

€ million	31.12.2007	31.12.2006
Subordinated liabilities (promissory note loans, bonds)	322.9	304.8
Profit participation certificates	135.8	135.8
Total	**458.7**	**440.6**

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or several occasions by 29 May 2011 up to a total amount of €250.0 million. In order to strengthen liable equity further, the Bank issued new registered profit participation certificates in the amount of €100.0 million in September 2006. No further use was made of this facility in the last financial year.

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

Subordinated capital of €399.8 million (2006: €434.8 million) before discounts and market support deductions is referred to for the calculation of liable equity capital according to Section 10 (5a) of the German Banking Act (KWG).

For the 2007 financial year, interest payable amounts to €15.6 million (2006: €13.9 million) on subordinated liabilities and to €7.4 million (2006: €3.8 million) on profit participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
5% or lower	128.2	133.2
Over 5% up to 8%	169.7	150.0
Fixed rates	297.9	283.2
Variable rates	25.0	25.0
Total	**322.9**	**308.2**

Repayment	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
Up to 1 year	0.0	15.2
Over 1 year up to 5 years	69.5	69.6
Over 5 years	253.4	223.4
Total	**322.9**	**308.2**

39 Shareholders' Equity

As at 31 December 2007, subscribed capital was unchanged at €70.0 million. As before, this is divided into 26,100,000 no-par value shares. The consideration of share-based payments settled in the form of equity instruments increased the capital reserves by €1.5 million, which we reported at €212.9 million as at 31 December 2007.

Subject to approval by the Supervisory Board, the Management Board is authorised to increase the share capital by a maximum of €23.0 million up to 31 May 2008, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is subject to a conditional capital increase of up to €13.5 million by means of issuing no-par value bearer shares. The conditional capital increase shall only be executed to the extent that the holders of conversion or option rights, issued no later than 31 May 2008 on the basis of the authorisation resolution by the Annual General Meeting of 3 June 2003, exercise their conversion or option rights (conditional capital).

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

€ million	2007	2006
Net valuation reserve as at 1 January	**88.6**	**93.9**
Disposals (gross)	-6.3	2.4
Market fluctuations (gross)	-25.8	-23.3
Impairments (gross)	3.8	1.1
Deferred taxes	15.9	14.5
Net valuation reserve as at 31 December	**76.2**	**88.6**

Shareholders' Equity in Accordance with the German Banking Act (KWG)
A bank's capital for regulatory purposes is divided into three components–core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily subscribed capital plus the capital reserves and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominantly of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

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

€ million	2007	2006
Core capital (Tier I capital)		
Consolidated, core capital as disclosed on the balance sheet	670	651
Intangible assets	-60	-62
Total core capital	**610**	**589**
Supplementary capital (Tier II capital)		
Subordinated liabilities	297	296
Profit-participation certificates	100	136
Unrealised profits from listed securities	35	23
Consolidation	-2	-15
Total supplementary capital	**430**	**440**
Adjustment items	-10	0
Regulatory capital excluding ancillary capital	**1,030**	**1,029**
Ancillary capital (Tier III)	**0**	**2**
Total regulatory capital	**1,030**	**1,031**

€ million	2007	2006
Risk-weighted assets	7,356	6,719
Market risk equivalent	2,250	1,675
Risk exposure	**9,606**	**8,394**
Core capital (Tier I) ratio relative to risk exposure	**6.4**	**7.0**
Equity ratio (Tier I + Tier II + Tier III) relative to risk exposure	**10.7**	**12.3**

Risk-weighted assets grew considerably in 2007 while positions exposed to market risk posted a moderate increase. Regulatory capital was virtually unchanged. Thanks to this capitalisation, we not only have exceeded the minimum capital requirement expected by the banking supervisory authority, but are also in a position to further leverage growth.

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

We pay special attention to the management of shareholders' equity, above all to an appropriate return on equity, so that we do not necessarily become consciously involved in low-margin business. Nevertheless, the items for mandatory inclusion according to Liquidity Principle I have increased by a good 14% over the previous year. This increase is a result of our consistent growth path and the gradual acquisition of new clients enabling us to increasingly take on a core bank function also for major addresses. Our loan portfolio has therefore grown considerably, despite the unchanged, very strict demands placed on the credit quality requirements. We have offset this growth path in recent years by significantly increasing liable capital. We achieved this on the one hand by not distributing net profit for the year in full, always allocating to our reserves instead. On the other, we have gradually increased our subordinated capital including profit-participation certificates.

An analysis of the economic capital requirement complements this management of shareholders' equity which is focused on the regulatory requirements. Although the introduction of the Basel II accord considerably improved the risk measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and risk cushions in our business, in conjunction with addressing the Bank's risk-bearing capacity even in extreme stress scenarios. The economic capital requirements for our Bank were calculated in full for the first time in 2006, although the theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of the risk is not quite without its problems. We refined this calculation in 2007 and will follow this practice at least once a year in the future. All in all, we want to ensure there is a minimum 99.95% probability that the risk cushion exceeds the risk exposure.

40 Measurement Classes

Assets as at 31.12.2007 in € million					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		332.3			332.3
Loans and advances to banks*	4,117.0				4,117.0
Loans and advances to customers *	4,256.7				4,256.7
Trading assets			10,436.8		10,436.8
Financial assets		56.5	0.3	1,511.4	1,568.2
Other financial instruments	0.9	5.6			6.5
Total financial instruments	**8,374.6**	**394.4**	**10,437.1**	**1,511.4**	**20,717.5**
Other assets not included under IAS 39					349.4
Total assets					**21,066.9**

Liabilities as at 31.12.2007 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,532.7		2,532.7
Customer accounts**	10,283.2		10,283.2
Certificated liabilities	10.0		10.0
Trading liabilities		6,488.4	6,488.4
Subordinated capital	458.7		458.7
Other financial instruments	47.9		47.9
Total financial instruments	**13,332.5**	**6,488.4**	**19,820.9**
Other liabilities, not included under IAS 39			280.9
Shareholders' equity			965.1
Total assets			**21,066.9**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our clients' deposits are used in part internally to refinance our trading divisions

Assets as at 31.12.2006 in € million					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		436.3			436.3
Loans and advances to banks*	4,440.1				4,440.1
Loans and advances to customers *	3,156.1				3,156.1
Trading assets			9,044.0		9,044.0
Financial assets		41.3	0.6	1,395.7	1,437.6
Other financial instruments	28.9	4.8			33.7
Total financial instruments	**7,625.1**	**482.4**	**9,044.6**	**1,395.7**	**18,547.8**
Other assets not included under IAS 39					128.6
Total assets					**18,676.4**

Liabilities as at 31.12.2006 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial obligations	Held-for-trading	
Deposits by banks	1,495.7		1,495.7
Customer accounts**	8,861.4		8,861.4
Certificated liabilities	29.8		29.8
Trading liabilities		6,683.6	6,683.6
Subordinated capital	440.6		440.6
Other financial instruments	58.3		58.3
Total financial instruments	**10,885.8**	**6,683.6**	**17,569.4**
Other liabilities, not included under IAS 39			222.1
Shareholders' equity			884,9
Total assets			**18,676,4**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers

** Our clients' deposits are used in part internally to refinance our trading divisions

Notes to the Consolidated Income statement

41 Net Interest Income

€ million	2007	2006
Interest income	**448.4**	**285.1**
from loans and advances to banks	227.2	111.2
money market transactions	211.1	97.7
other interest-bearing receivables	16.1	13.5
from loans and advances to customers	155.7	112.2
money market transactions	50.1	43.1
other interest-bearing receivables	105.6	69.1
from financial assets	65.5	61.7
interest income	55.7	51.7
dividend income	1.6	1.0
income on investments	8.2	9.0
Interest expenses	**338.4**	**196.5**
from deposits by banks	36.7	17.9
money market transactions	29.4	12.7
other interest-bearing deposits	7.3	5.2
from customer accounts	276.6	159.2
money market transactions	153.4	89.5
other interest-bearing deposits	123.2	69.7
from securitised receivables	2.1	1.7
from subordinated capital	23.0	17.7
Net interest income	110.0	88.6

During the year under report, we succeeded in significantly increasing net interest income by €21.4 million or 24.2% to €110.0 million. In addition to improved margins achieved on transactions with clients in the lending business, the higher net interest income is attributable above all to the increase in client deposits, most of which we invested in the interbank market. Furthermore, net interest income from financial assets–including income on investments–rose by €3.8 million or 6.2% to €65.5 million, thus remaining at a favourably high level.

During the period under review, interest income from financial assets subject to impairment was recognised in the amount of €2.4 million (2006: €1.1 million).

42 Share of Profit in Associates

The share of profit in associates climbed by €3.9 million to €6.4 million (2006: €2.5 million) as a result of our joint venture with International Transaction Services GmbH and our interest in SINO AG. SINO AG was reported for the first time in the year under report as an associated company consolidated at equity (cf. Note 25).

43 Net Loan Impairment and other Credit Risk Provisions

€ million	2007	2006
Additions	3.6	1.5
Reversals	6.7	7.4
Direct write-offs	0.0	1.1
Recoveries on loans and advances previously written off	0.4	0.4
Total	**-3.5**	**-5.2**

Although the year under report was defined by significant distortions in the markets for structured credit products, additions to net loan impairment provisions (customer lending) were once again lower than the reversals. We attribute this success largely to our tried-and-tested, conservative credit risk management.

44 Net Fee Income

€ million	2007	2006
Securities transactions	203.7	182.1
Foreign exchange transactions and derivatives	48.2	47.0
Issuing and structuring activities	19.8	12.3
Foreign business	13.0	13.7
Corporate finance	9.1	3.7
Payments	5.6	5.2
Lending	4.3	3.8
Real estate business	0.7	1.7
Other fee-based business	13.7	12.3
Total	**318.1**	**281.8**

Net fee income in the year under report was up by €36.3 million or 12.9% to €318.1 million. Accounting for 59.4% of the Bank's operating profit, it remains a crucial factor to the Bank's success. This positive development is due primarily to the continued rise in the number of clients in the Corporate Client and Private Banking business. The continuous improvement in our cooperation with the HSBC Group has enabled us to provide an extensive advisory service with a greater product range and reliable services, as well as offer very competitive prices for large-volume transactions.

Overall, net fee income exceeded net interest income by a factor of 2.9 (2006: 3.2).

Net fee income includes fee expenses totalling €24.2 million (2006: €17.5 million) for the settlement of securities transactions by our joint venture ITS.

Trust activities performed by the Group on its own behalf, but for the account of third parties, are not recognised in the balance sheet. Net fee income includes €0.2 million in fee income from trust activities (2006: 0.3 million). Fee expenses amounted to €0.0 million (2006: €0.0).

45 Net Trading Income

€ million	2007	2006
Equities and equity/index derivatives	79.0	80.1
Bonds and interest rate derivates	10.9	13.1
Foreign exchange	10.2	10.8
Total	**100.1**	**104.0**

At €100.1 million (2006: €104.0 million) net trading income continued to make a major contribution to the Bank's operative results. This sum again comprises trade-related net interest income. Notwithstanding the difficult market environment on the one hand, and the very high targets of the previous year on the other, our expectations were exceeded significantly.

46 Total Administrative Expenses

€ million	2007	2006
Staff expenses	203.3	189.7
Wages and salaries	181.0	164.8
Social security costs	17.2	16.0
Expenses for post-employment benefits	5.1	8.9
Other administrative expenses	118.8	98.6
Depreciation of property, plant and equipment and of intangible assets	11.3	10.3
Total	**333.4**	**298.6**

Other administrative expenses include €12.5 million (2006: €8.0 million) in expenses arising from lease payments.

The rise in other administrative expenses was due mainly to higher IT investments and increased costs incurred for implementing legal requirements. Once again, our cost income ratio of 62.0% in the year under report (2006: 61.8%) was considerably lower than our target range of 65-70%. This again demonstrates that the sharp rise in total administrative expenses is justified by more than proportionately higher returns.

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

€ million	2007	2006
Expenses for defined benefit plans	0.7	4.4
of which current service costs	4.3	7.4
of which interest expenses	8.8	7.4
of which estimated income from the plan assets	-12.4	-10.4
Expenses for defined contribution plans	4.0	3.7
Expenses for retirement pensions	0.4	0.8
Total	**5.1**	**8.9**

47 Net Income from Financial Assets

On balance, the sale of financial assets–investment funds in particular–generated realised gains of €4.0 million (€3.1 million). These are offset by impairments on long-term positions totalling €3.8 million. Furthermore, the result from the hedging of the Bank's strategic interest-rate exposure with derivatives that do not fulfil the hedge criteria of IAS 39 is reported in net income from financial assets.

48 Net Other Income/Expenses

€ million	2007	2006
Other operating income	11.0	6.4
Other operating expenses	9.7	7.4
Other operating income/expenses	**1.3**	**-1.0**
Other income	0.1	1.0
Other expenses	0.2	0.5
Other net income	**-0.1**	**0.5**
Net other income/expenses	**1.2**	**-0.5**

Net other operating income/expenses essentially include €5.9 million (2006: €2.0 million) from the writing back of other provisions and €1.7 million (2006: €1.5 million) in rental income, as well as other income, for example from property management, of €2.0 million (€2.9 million). However, this income is more than offset by other operating expenses, in particular for additions to other provisions.

49 Income Taxes

€ million	2007	2006
Current taxes	35.9	74.9
of which off-period	0.0	3.0
Deferred taxes from the change in limited valuation differences	42.4	0.0
Deferred taxes from changes to the tax rates	-14.9	0.0
Total	**63.4**	**74.9**

The corporation tax rate was unchanged at 26.4% in 2007 as well. Taking trade income tax into account, combined taxes on income for 2007 are unchanged at 40.4%.

In contrast, we had to use the lower tax rate (as a result of the 2008 corporate tax reform) for the purpose of calculating deferred taxes. The reform results in a corporate tax rate of 15.8% as of 1 January 2008 and combined taxes on income of 32.0%. The reduced tax expenses (having taken the 2008 corporate tax reform into consideration) amounts to €14.9 million in the year under report.

Income subject to Luxembourg taxation is taxed at an unchanged rate of 29.6%.

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

€ million	2007	2006
Profit before taxes	207.8	189.5
Income tax (%)	40.4	40.4
Derived income tax on profit before taxes	**84.0**	**76.5**
Deferred tax effect from changes to the tax rates	-14.9	0.0
Tax rate differential on income proportions subject to taxation outside of Germany	-3.5	-2.4
Effect from tax-exempt income and non-tax deductible expenses in accordance with section 8 b KStG	-3.3	-6.3
Taxes for previous years	0.0	3.0
Miscellaneous	1.1	4.1
Reported income taxes	**63.4**	**74.9**

50 Calculation of Operating Profit

			Change	
€ million	2007	2006	€ million	in %
Interest income	448.4	285.1	163.3	57.3
Interest expenses	338.4	196.5	141.9	72.2
Net interest income	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	-3.5	-5.2	1.7	-32.7
Net interest income after loan provisions	113.5	93.8	19.7	21.0
Share of profit in associates	6.4	2.5	3.9	> 100.0
Fee income	620.7	520.4	100.3	19.3
Fee expenses	302.6	238.6	64.0	26.8
Net fee income	318.1	281.8	36.3	12.9
Net trading income	100.1	104.0	-3.9	-3.8
Staff expenses	203.3	189.7	13.6	7.2
Other administrative expenses	130.1	108.9	21.2	19.5
Administrative expenses	333.4	298.6	34.8	11.7
Net other operating profit/expenses	1.3	-1.0	2.3	> 100.0
Operating profit	**206.0**	**182.5**	**23.5**	**12.9**
Net income from financial assets	1.9	6.5	-4.6	-70.8
Other net income	-0.1	0.5	-0.6	> 100.0
Profit before taxes	**207.8**	**189.5**	**18.3**	**9.7**
Income taxes	63.4	74.9	-11.5	-15.4
Net profit for the year	**144.4**	**114.6**	**29.8**	**26.0**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (Note 48). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 53).

51 Income Statement by Measurement Category

The following overview includes net profit or net loss for every IAS 39 measurement category of financial assets and liabilities. Net profits/losses are a net earnings indicator comprising on the one hand changes in market value recognised in the income statement, disposal of financial instruments, impairments and currency translation effects if necessary. On the other, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31 December 2007 € million	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale portfolio	Other financial liabilities	Other	Total
Net interest income							
Interest income	374.4	8.5		65.5			448.4
Interest expenses					-338.4		-338.4
Net fee income							
Fee income	4.5					616.2	620.7
Fee expenses	-0.3					-302.3	-302.6
Net trading income			100.1				100.1
Net income from financial assets			0.9	4.8			5.7
Impairments							
Net loan impairment provisions	1.9					1.6	3.5
Net income from financial assets				-3.8			-3.8
Total	**380.5**	**8.5**	**101.0**	**66.5**	**-338.4**	**315.5**	**533.6**

Measurement category 31 December 2006 € million	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale portfolio	Other financial liabilities	Other	Total
Net interest income							
Interest income	218.5	4.9		61.7			285.1
Interest expenses					-196.5		-196.5
Net fee income							
Fee income	5.2					515.2	520.4
Fee expenses	-1.4					-237.2	-238.6
Net trading income			104.0				104.0
Net income from financial assets			1.6	6.0			7.6
Impairments							
Net loan impairment provisions	3.0					2.2	5.2
Net income from financial assets				-1.1			-1.1
Total	**225.3**	**4.9**	**105.6**	**66.6**	**-196.5**	**280.2**	**486.1**

Other Disclosures

52 Notes to the Cash Flow Statement

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

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

The summary item Other adjustments (net) in the cash flow statement essentially comprises the valuation results of the financial instruments in the trading portfolio at the reporting date, net additions to deferred taxes, the change in tax rebate claims as well as income tax paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents
As in the previous year, the cash and cash equivalents of €332.3 million (2006: 436.3 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rate changes were to be taken into consideration.

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

Consolidated net profit for the year of €144.4 million (2006: €114.6 million) is the input figure for the cash flow statement. The gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to €129.0 million (2006: €180.1 million). The cash flows from operating activities also take into account changes in funds employed in operations.

Cash Flows from Investing Activities
Spending on the acquisition of property, plant and equipment totalled €131.3 million in the 2007 financial year (2006: €15.2 million), accounted for in particular by the purchase of a property in Brisbane, Australia, which should be marketed within the framework of a property fund. The sale of property, plant and equipment realised €1.0 million (€2006: 1.4 million) for the Group. In the 2007 financial year, the sale and purchase of equity-linked financial investment instruments realised a net outgoing payment of €15 million (2006: €-0.9 million).

Cash Flows from Financing Activities
Cash flows from financing activities includes the dividend of €65.3 million for the 2006 financial year (2006: €65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report.

53 Segment Reporting

The IAS 14 segment reporting prepared by HSBC Trinkaus & Burkhardt provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions and should help them gain a more differentiated picture of the economic performance of a company.

The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits. The MIS also serves as one of the Bank’s central controlling and monitoring tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis. For this reason, we have chosen to define these divisions as the primary segments.

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

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

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

Institutional Clients
HSBC Trinkaus & Burkhardt provides its institutional clients, namely fund-gathering institutions, with substantial investment needs (for example, insurance companies, pension and investment funds and also banks) with a full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

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

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

Segment reporting by business division for 2006 and 2007 is as follows:

€ million	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income	2007	14.1	40.1	3.9	3.4	48.5	110.0
	2006	11.7	32.7	1.8	3.7	38.7	88.6
Net loan impairment and other credit risk provisions	2007	1.1	5.2	0.5	0.1	-10.4	-3.5
	2006	1.0	4.7	0.2	0.0	-11.1	-5.2
Net interest income after loan impairment and other credit risk provisions	2007	13.0	34.9	3.4	3.3	58.9	113.5
	2006	10.7	28.0	1.6	3.7	49.8	93.8
Share of profit in associates	2007					6.4	6.4
	2006					2.5	2.5
Net fee income	2007	91.9	82.7	141.2	13.3	-11.0	318.1
	2006	80.2	77.6	122.6	7.2	-5.8	281.8
Net trading income	2007		-0.2	-1.9	98.2	4.0	100.1
	2006		-0.4	4.3	88.4	11.7	104.0
Income after impairment and other credit risk provisions	2007	104.9	117.4	142.7	114.8	58.3	538.1
	2006	90.9	105.2	128.5	99.3	58.2	482.1
Administrative expenses	2007	62.7	71.3	83.6	50.3	65.5	333.4
	2006	53.9	63.5	72.2	42.7	66.3	298.6
Net other operating profit/ expenses	2007					1.3	1.3
	2006					-1.0	-1.0
Operating profit	**2007**	**42.2**	**46.1**	**59.1**	**64.5**	**-5.9**	**206.0**
	2006	**37.0**	**41.7**	**56.3**	**56.6**	**-9.1**	**182.5**
Net income from financial assets	2007					1.9	1.9
	2006					6.5	6.5
Other net income	2007					-0.1	-0.1
	2006					0.5	0.5
Profit before taxes	2007	42.2	46.1	59.1	64.5	-4.1	207.8
	2006	37.0	41.7	56.3	56.6	-2.1	189.5
% change on previous year		**14.1**	**10.6**	**5.0**	**14.0**		**9.7**

As seen in the previous two years, all four segments of the Bank succeeded in further expanding their year-on-year results in 2007. This development is particularly gratifying against the backdrop of the subprime crisis on the credit and financial markets.

The Private Banking segment was particularly successful, recording the highest percentage improvement in results. The significant growth in the volume of private clients under management, including our clients' current account balances, led to a considerable year-on-year rise in income earned in the securities business with equities and bonds, as well as in net interest income.

Net interest income from the deposit-taking business also rose in the Corporate Client business, whilst continuing margin pressure resulted in the stagnation of the contribution from the credit business, despite increased volume. We also achieved a significant increase in fee income in our Corporate Client business, especially in corporate finance transactions.

Of all four segments, the Institutional Clients segment made the greatest contribution to the Bank's results; this segment benefited in particular from the highly successful asset management and equities business. Within this context, the share of products the Bank procures from HSBC Group is rising steadily.

The result from the Global Markets business also developed very favourably. In addition to the particularly successful equity derivatives trading business, money market and foreign exchange trading also posted considerable increases in income, while equity and fixed-income trading was unable to repeat the high level of income achieved the year before. The issue of retail products, such as warrants and certificates, within the scope of our market retail derivatives contributed substantially to this very successful business performance.

One of the key reasons behind the sharp rise in administrative expenses across the entire Bank compared with the previous year was the higher costs brought about by the considerable increase in staff levels, which was fundamentally necessary for our expansive business development. There were also the effects of the new regulatory requirements such as the implementation of MiFID and Basel II, and the expansion of information technology. Similarly, the increase in revenues resulted in higher provisions for performance-related remuneration.

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

	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Con-solidation	Total	Adjust-ments	Values as at balance sheet date
Cost:income ratio in %	2007	59.2	58.2	58.4	43.8		62.0		62.0
	2006	58.7	57.8	56.1	43.0		61.8		61.8
Assets* in € million	2007	722.0	2,385.0	1,318.0	4,210.5	11,195.3	19,830.8	1,236.1	21,066.9
	2006	721.0	1,861.0	1,150.7	4,540.1	8,200.5	16,473.3	2,203.1	18,676.4
Liabilities* in € million	2007	3,880.0	3,233.0	1,359.4	1,725.4	8,448.2	18,646.0	668.3	19,314.3
	2006	2,803.0	3,001.0	1,069.3	1,968.0	6,648.6	15,489.9	1,577.6	17,066.7
Items for mandatory inclusion* in € million	2007	494.7	3,216.6	616.5	684.4	4,236.8	9,249.0	357.0	9,606.0
	2006	469.7	2,542.6	514.5	642.9	3,811.3	7,981.0	413.0	8,394.0
Attributable shareholders' equity* in € million	2007	129.6	347.3	139.3	144.8	96.8	857.8	107.3	965.1
	2006	139.2	258.1	98.3	95.2	76.6	667.4	217.5	884.9
Staff	2007	207	198	204	95	1,124	1,828		1,828
	2006	193	180	202	77	967	1,619		1,619
Return on equity before taxes (%)	2007	32.6	13.3	42.4	44.6		24.2		
	2006	30.2	14.5	44.6	41.5		23.9		

*Annual average

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

The cost:income ratio is a measure of the divisions' cost efficiency and reveals the ratio of total administrative expenses to income before risk provisioning. This ratio is virtually unchanged in the Private Banking and Corporate Clients segments. The cost:income ratios of the Institutional Clients and Global Markets segments deteriorated slightly as their costs exceeded income in percentage terms.

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

The assignment of assets, liabilities, risk assets and balance sheet equity follows the MIS-specific assignment of customers to each segment.

The rise in loans and advances to customers in the Corporate Clients and Institutional Clients segments was accompanied by the expansion of their items for mandatory inclusion. We saw a slight increase in the items for mandatory inclusion in Private Banking and Global Markets.

However, in line with the development of operating profit, the return on equity in Global Markets and Private Banking improved further. The return on equity in the Institutional Clients and Corporate Clients segments was down slightly.

The secondary segment reporting criterion is allocation to regions as determined by the country of incorporation of the Group company concerned. This reveals the following picture of our business activities.

€ million	Year	Germany	Luxembourg	Remainder	Consolidation	Total
Net interest income	2007	95.7	14.2	0.1		110.0
	2006	78.9	9.7	0.0		88.6
Loan impairment and other credit risk provisions	2007	-1.3	-2.2			-3.5
	2006	-6.0	0.8			-5.2
Share of profit in associates	2007	6.4				6.4
	2006	2.5				2.5
Net fee income	2007	289.0	24.9	4.2		318.1
	2006	257.8	21.0	3.0		281.8
Net trading income	2007	97.7	2.4			100.1
	2006	100.1	3.9			104.0
Administrative expenses	2007	314.9	17.7	0.8		333.4
	2006	282.1	15.7	0.8		298.6
Profit before taxes	2007	177.4	26.9	3.5		207.8
	2006	169.3	17.9	2.3		189.5
Cost:income ratio in %	2007	64.1	41.7	17.9		62.0
	2006	63.3	45.6	24.8		61.8
Items for mandatory inclusion	31.12.2007	9,225.0	676.0	0.0	-295.0	9,606.0
	31.12.2006	8,077.0	627.0	1.0	-311.0	8,394.0
Total assets	31.12.2007	19,549.8	2,110.1	3.8	-596.8	21,066.9
	31.12.2006	17,217.8	2,164.4	2.6	-708.4	18,676.4

54 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 4.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at market value, i.e. book value equates to market value. Cash reserve, interbank funds, loans and advances to customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book value:

€ million	31.12.2007		31.12.2006	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	6.5	6.5	33.7	33.7

€ million	31.12.2007		31.12.2006	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,532.7	2,531.8	1,495.7	1,497.2
Customer accounts (from the measurement of long-term promissory note loans borrowed)	10,283.2	10,278.0	8,861.4	8,864.8
Certificated liabilities	10.0	9.4	29.8	29.7
Subordinated capital	458.7	447.2	440.6	444.0
Other financial instruments	47.9	47.9	58.3	58.3

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships and unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

€ million	Book value	
	31.12.2007	31.12.2006
Partnerships	19.1	15.6
Holdings in unlisted public limited companies	37.4	25.7
Total	**56.5**	**41.3**

During the year under report, partnerships of €0.1 million were disposed of. The Bank has no intentions at present to dispose of further partnerships or unlisted public limited companies.

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2007 in € million		observed parameters	unobservable parameters		
Trading assets	1,380.3	9,056.3	0.2	0.0	10,436.8
Financial assets	637.2	871.5	3.0	56.5	1,568.2
Trading liabilities	961.2	5,454.1	73.1	0.0	6,488.4

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2006 in € million		observed parameters	unobservable parameters		
Trading assets	1,658.0	7,386.0	0.0	0.0	9,044.0
Financial assets	528.0	868.3	0.0	41.3	1,437.6
Trading liabilities	479.3	6,195.5	8.8	0.0	6,683.6

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to €1.5 million (2006: €2.5 million). A 25% change in the unobservable parameters would lead to a €0.3 million (2006: €0.3 million) change in the market value.

55 Day-1 Profit or Loss*

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

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

€ million	2007	2006
As at 1 January	**5.0**	**7.5**
New business	2.1	2.5
Day-1 profit or loss recognised in the income statement	-3.6	-5.0
of which positions closed out	-3.6	-4.5
of which matured transactions	0.0	-0.5
of which observable market parameters	0.0	0.0
As at 31 December	**3.5**	**5.0**

* A day-1 profit or loss occurs when the price paid for financial assets not traded on an active market (and hence the fair price at the time of initial measurement) is not identical to the fair value calculated by means of a measurement model within the scope of the subsequent measurement.

56 Holdings in Foreign Currency

As at 31 December 2007, assets denominated in a foreign currency were valued at €2,554.7 million (2006: €2,560.9 million) and the corresponding liabilities at €2,475.4 million (2006: €2,599.1 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

57 Derivatives Business

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

Breakdown of the derivatives business by nominal amount:

€ million		Nominal amounts with a residual term of			Nominal amounts	Nominal amounts
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006
OTC products	FRAs	260	3	0	263	5
	Interest-rate swaps	5,155	12,115	9,802	27,072	27,520
	Interest-rate options–purchases	1,977	3,227	3,974	9,178	11,721
	Interest-rate options–sales	766	3,067	4,598	8,431	11,406
	Forward transactions	319	0	0	319	572
Exchange-listed products	Interest-rate futures	2,826	973	0	3,799	5,503
	Interest-rate options	0	0	66	66	0
Interest-based transactions		**11,303**	**19,385**	**18,440**	**49,128**	**56,727**
OTC products	Foreign exchange forwards	23,115	1,500	43	24,658	24,113
	Cross-currency swaps	305	38	55	398	215
	Foreign exchange options–purchases	2,285	475	0	2,760	2,132
	Foreign exchange options–sales	1,835	373	0	2,208	1,738
Exchange-listed products	Currency futures	2	0	0	2	15
Foreign-exchange-based transactions		**27,542**	**2,386**	**98**	**30,026**	**28,213**
OTC products	Equity/index options–purchases	154	249	204	607	205
	Equity/index options–sales	128	43	18	189	27
Exchange-listed products	Equity/index futures	1,122	0	0	1,122	950
	Equity/index options	5,548	3,385	78	9,011	10,450
Equity/index-based transactions		**6,952**	**3,677**	**300**	**10,929**	**11,632**
OTC products	Credit default swaps–purchases	0	0	0	0	20
	Credit default swaps–sales	0	0	0	0	20
Credit derivatives		**0**	**0**	**0**	**0**	**40**
Total financial derivatives		**45,797**	**25,448**	**18,838**	**90,083**	**96,612**

Breakdown of the derivatives business by market value

€ million		Positive market value with a residual term of			Positive market value		Negative market value	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006	Total 2007	Total 2006
OTC products	FRAs	0	0	0	0	0	0	0
	Interest-rate swaps	147	27	259	433	547	399	563
	Interest-rate options–purchases	24	5	149	178	345	0	0
	Interest-rate options–sales	0	0	0	0	0	199	344
	Forward transactions	0	3	0	3	0	3	0
Interest-based transactions		**171**	**35**	**408**	**614**	**892**	**601**	**907**
OTC products	Foreign exchange forwards	32	444	1	477	289	474	290
	Cross-currency swaps	1	3	3	7	3	9	5
	Foreign exchange options–purchases	27	121	0	148	72	0	0
	Foreign exchange options–sales	0	0	0	0	0	117	41
Foreign exchange-based transactions		**60**	**568**	**4**	**632**	**364**	**600**	**336**
OTC products	Equity/index options–purchases	14	26	26	66	69	0	0
	Equity/index options–sales	0	0	0	0	0	60	56
Equity/index-based transactions		**14**	**26**	**26**	**66**	**69**	**60**	**56**
OTC products	Credit default swaps–purchases	0	0	0	0	1	0	0
	Credit default swaps–sales	0	0	0	0	0	0	1
Credit derivatives		**0**	**0**	**0**	**0**	**1**	**0**	**1**
Total financial derivatives		**245**	**629**	**438**	**1,312**	**1,326**	**1,261**	**1,300**

58 Contingent Liabilities and Other Obligations

€ million	31.12.2007	31.12.2006
Contingent liabilities on guarantees and indemnity agreements	1,617.2	1,581.2
Irrevocable loan commitments	3,704.3	3,701.1
Total	**5,321.5**	**5,282.3**

As before, there are no obligations in respect of unpaid share capital relating to investments. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at €0.2 million.

Our liability to make further contributions arising from our interest in Liquiditätskonsortialbank GmbH was also unchanged, at €3.7 million. In addition, we bear a proportional contingent liability for fulfilling the funding obligations of other partners in the Association of German Banks (Bundesverband deutscher Banken e.V.).

On 1 January 2008, HSBC Trinkaus & Burkhardt AG acquired 49% of the capital of International Transaction Services GmbH (ITS).

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of €3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of €2.1 million is still outstanding.

Commitments arising from leasing and rental contracts totalled €35.4 million (2006: €35.7 million) as at the balance sheet date.

€ million	31.12.2007	31.12.2006
Up to 1 year	18.6	21.4
including leasing	4.6	8.6
Over 1 year up to 5 years	13.3	12.6
including leasing	4.9	4.6
Over 5 years	3.5	1.7
including leasing	0.0	0.0
Total commitments arising from leasing and rental contracts	**35.4**	**35.7**

59 Assets Pledged as Collateral

Securities with a nominal value of €862.6 million (2006: €503.3 million) were deposited as collateral for transactions on Eurex and for securities lending operations(cf. Note 30). Debt instruments with a nominal value of €1,767.0 million (€1,878.3 million) were available for use as collateral for peak funding facilities on the balance sheet date.

60 Trust Activities

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

€ million	31.12.2007	31.12.2006
Trust assets	**373.1**	**374.1**
Loans and advances to banks	146.0	3.5
Loans and advances to customers	123.6	250.4
Trust equity holdings	103.5	120.2
Trust liabilities	**373.1**	**374.1**
Deposits by banks	3.4	4.5
Customer accounts	369.7	369.6

61 Participating Interests

HSBC Trinkaus & Burkhardt AG holds a direct or indirect stake of at least 20% in the following mainly fully consolidated companies:

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	41,807
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	81,772	17,444
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	436	2,848
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,509	3,009
International Transaction Services GmbH*	Düsseldorf	51.0	19,771	4,771
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	-94
HSBC Investments Deutschland GmbH	Düsseldorf	100.0	5,001	15,351
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,402	949
Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	-7
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	-6,227
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	-2,137
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	32	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	61	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	62	5
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	24	-1
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	24	-1

*accounted for at equity

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,557
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,165	2,094
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	9
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	3	1
Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG	Düsseldorf	100.0	60	0
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,957	256
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,872	294
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	280
Other companies				
HSBC Bond Portfolio GmbH	Frankfurt am Main	100.0	54	4
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	6,037	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	29	3
SINO AG*	Düsseldorf	26.6	5,580	2,992

*consolidated at equity. The shareholding was increased from 15.1% to 26.6% during the year under report.

62 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully-consolidated companies of the Group–HSBC Trinkaus & Burkhardt (International) SA, Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Investments Deutschland GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf–are in a position to fulfil their contractual obligations. Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners (if individual legal persons) of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the Managing Partners are natural persons.

63 Staff

Annual average	2007	2006
Staff employed abroad	138	130
Staff employed in Germany	1,599	1,446
Total (including trainees)	**1,737**	**1,576**
of which:		
female members of staff	762	694
male members of staff	975	882

64 Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expenses:

€ million	2007	2006
Audits	0.8	0.7
Other audit or valuation services	0.2	0.1
Tax advisory services	0.0	0.0
Other services	0.2	0.3
Total	**1.2**	**1.1**

65 Business Relationships with Companies and Pensions defined as Related Parties

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

Overall, the consolidated income statement includes €265.3 million (2006: 150.2 million) in income and €37.7 million (2006: €21.8 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. Income includes interest income of €207.2 million (2006: €96.5 million). This increase is due to the large surpluses of liquidity loaned by the Bank to other units of the HSBC Group owing to the subprime crisis.

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

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Loans and advances to banks	2,442.7	919.6	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	91.1	26.7	31.4	35.4
Total	**2,442.7**	**919.6**	**91.1**	**26.7**	**31.4**	**35.4**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Deposits by banks	857.4	813.1	0.0	0.0	0.0	0.0
Customer accounts	1.8	1.5	4.5	5.5	25.8	12.2
Total	**859.2**	**814.6**	**4.5**	**5.5**	**25.8**	**12.2**

Assets/liabilities held for trading include the following amounts:

	Securities		Derivatives	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Trading assets	4,253.1	1,930.1	792.6	606.3
Trading liabilities	0.0	0.0	417.4	360.6

Compensation of the Executive Bodies

The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Organisation and Management). The following overview shows the total compensation of the individual members of the Management Board in the 2007 financial year and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 July 2007, information is disclosed pursuant to Section 314 para. 1 No. 6 (a) sentence 5-9 of the German Commercial Code (Handelsgesetzbuch–HGB).

€ thousand	2007
Fixed remuneration	2,112.5
Variable remuneration	8,466.8
Share-based payments	1,000.0
Other remuneration*	96.6
Total remuneration	**11,675.9**

*Other remuneration comprises mainly remuneration paid for the assumption of Supervisory Board offices within the Group, use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

The performance-related components for 2007 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The cash component is taken into account in the table. The share component will be paid in three equal amounts from 2009 to 2011, subject to continued service for the Bank.

In connection with the change in the Bank's legal form, the Managing Partners were granted a one-off overall amount of €3.0 million in shares in HSBC Holdings plc as an incentive to remain on the Management Board of the stock corporation (AG). The payment will be made in three equal instalments at the end of each year from 2006 through 2008, and is subject to their continued service for the bank.

Provisions totalling €10.2 million (2006: €10.9 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 17 June 2008, the compensation of the Supervisory Board for 2007 will be €1,180,463.69 (2006: €1,064,831.62). The members of the Board of Directors received compensation totalling €323,100.00 (2006: €208,505.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled €193,203.88 (2006: €201,278.88). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled €4.5 million (2006: €4.5 million). Provisions totalling €44.1 million (2006: €49.6 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 66. Minor use was made of this right.

As in the previous year, there were no loans and advances to Members of the Management Board and the Supervisory Board. Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

66 Share Option Scheme

Breakdown of the share option scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2007	Number of option rights 31.12.2006
SAYE 2003 (3Y/5Y)	01.08.2003	2.8143/2.8944	7.68	64,804	68,369
SAYE 2004 (3Y/5Y)	01.08.2004	2.9064/3.2060	9.75	26,645	93,664
SAYE 2005 (3Y/5Y)	01.08.2005	2.9518/2.9952	9.66	148,522	159,400
SAYE 2006 (1Y/3Y/5Y)	01.08.2006	2.5400/2.6000/2.6700	11.01	74,929	100,769
SAYE 2007 (1Y/3Y/5Y)	01.08.2007	2.9900/2.9000/2.8200	10.42	174,097	–
Aggregate				**488,997**	**422,202**

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The anticipated term of the option depends on the behaviour of the option holder, which is integrated in the option model. Historical values are also taken into consideration in this context. The share options are generally exercised by staff on 1 August of the financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2007 was €12.30.

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 1.1.2007	SAYE 2003-2006	422,202	9.68
Granted in the course of the year	SAYE 2007	174,097	10.42
Exercised in the course of the year	SAYE 2004 (3Y)/ SAYE 2006 (1Y)	83,108	10.04
Forfeited in the course of the year	SAYE 2003-2007	24,194	9.75
Balance as at 31.12.2007	SAYE 2003-2007	488,997	9.88
of which outstanding option rights		488,079	–
of which exercisable option rights		918	–

The staff expenses to be taken into account in the year under report are €0.5 million (2006: €0.4 million).

Breakdown of the share option scheme

Performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

	Performance-related remuneration in HSBC shares	
	for the 2007 financial year	for the 2006 financial year
Maturing in March 2008	0.0	2.7
Maturing in March 2009	4.6	2.7
Maturing in March 2010	4.6	2.7
Maturing in March 2011	4.7	0.0
Total	**13.9**	**8.1**

The total value of liabilities from share-based payments at the end of the reporting period amounts to €3.4 million (2006: €0.0 million).

67 Statement on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the Commission of the German Corporate Governance Code and made this permanently available to shareholders, pursuant to Section 161 German Stock Corporation Act (AktG).

68 Offices held by Members of the Management Board

As of 31 December 2007, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz: Chairman	
Position	Company
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Deputy Member of the Management Board	L-Bank, Karlsruhe

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Supervisory Board	Falke-Bank i. L., Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	RWE Trading GmbH, Essen

Dr Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

Carola Gräfin von Schmettow	
Position	Company
Chairwoman of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	DBV Winterthur Lebensversicherung, Wiesbaden
Member of the Board of Directors	HSBC Investments (France) SA, Paris, France
Chairwoman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg

69 Offices held by Other Members of Staff

As of 31 December 2007, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Gerd Götz	
Position	Company
Member of the Supervisory Board	Sino AG, Düsseldorf
Member of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment AG m.v.K., Düsseldorf

Marc Landvatter	
Position	Company
Deputy Chairman of the Supervisory Board	Algopool AG, Cologne

Dr Christiane Marliani	
Position	Company
Member of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg

Dr Manfred v. Oettingen	
Position	Company
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	Company
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

Ulrich W. Schwittay	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf

Jürgen Werner	
Position	Company
Member of the Supervisory Board	daab GmbH, Cologne

70 Offices held by Supervisory Board Members

The members of our Supervisory Board also sit on the statutory supervisory boards and the comparable control bodies listed below:

Dr Sieghardt Rometsch	
Position	Company
Member of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Supervisory Board	Lanxess AG, Leverkusen
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
Member of the Board of Directors	Management Partner GmbH, Stuttgart

Dr h.c. Ludwig Georg Braun	
Position	Company
Chairman of the Supervisory Board	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Chairman of the Advisory Board	Aesculap AG & Co.KG, Tuttlingen
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Luzern, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Luzern, Switzerland
Member of the Board of Directors	B. Braun Medical Inc, Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical SA, Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical SA, Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt
Member of the Board of Directors	Wilh. Wehrhahn KG, Neuss

Dr Hans-Michael Gaul	
Position	Company
Member of the Supervisory Board	Allianz Versicherungs-AG, Munich
Member of the Supervisory Board	DKV Deutsche Krankenversicherung AG, Cologne
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	VNG-Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

Wolfgang Haupt	
Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	Pfleiderer AG, Neumarkt

Harold Hörauf	
Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Pensionsfonds, Berlin

Dr Otto Graf Lambsdorff	
Position	Company
Chairman of the Supervisory Board	Iveco Magirus AG, Ulm
Member of the Supervisory Board	Deutsche Lufthansa AG, Frankfurt am Main/Cologne

Professor Dr Ulrich Lehner	
Position	Company
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche S.E., Stuttgart
Member of the Board of Directors	Novartis AG, Basel, Switzerland

Dr Siegfried Jaschinski	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Member of the Supervisory Board	Heidelberger Druckmaschinen AG, Heidelberg
Chairman of the Board of Governors	Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart
Chairman of the Board of Directors	LRP Landesbank Rheinland-Pfalz, Mainz
Member of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main
Member of the Board of Directors	KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main

71 Publication

The Annual Report will be released for publication on 4 April 2008. The release for publication was approved by the Management Board in its meeting on 18 March 2008.

Düsseldorf, 6 February 2008

Andreas Schmitz	Paul Hagen
Dr Olaf Huth	Carola Gräfin v. Schmettow

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB, is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB as well as IFRS overall and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 13 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Signed by Becker Auditor	Signed by Kügler Auditor