

## **Corporate Governance Report 2016**

### ***Corporate Governance as an integral part of our corporate culture***

The German Corporate Governance Principles, as we have adopted them in our Declaration pursuant to section 161 of the German Public Limited Companies Act (*Aktiengesetz* – "AktG") – as shown below, are integral to the corporate culture of HSBC Trinkaus & Burkhardt. An open information policy toward our shareholders, clear management structures, transparency of financial accounting, and the strict avoidance of conflicts of interest are all indispensable conditions for winning and retaining the trust of our investors and business partners on the national and international financial markets. Our Code of Conduct sets out our understanding of corporate values and behavioural standards. Our Management Board and staff have given a written commitment that they will comply with this Code of Conduct.

Both management and representation of the Bank are the responsibility of a Management Board, which consisted of four members at the end of 2016; the Management Board was assisted by three Executive Committee members responsible for the Global Markets / Institutional & Corporate Clients as well as Commercial Banking and Global Corporates businesses. The Bank's organisational structure – including the responsibilities of the individual members of the Management Board for their specific business areas, and central functions – is described in the chapter "Business areas" of the Annual Report.

### ***Composition of the Supervisory Board***

The Management Board is subject to the supervision of a Supervisory Board, which is in turn subject to co-determination provisions. The Supervisory Board comprises 16 members, shareholders and employees being represented by eight members each.

The Supervisory Board currently has two female members. As the largest shareholder (holding a stake exceeding 80 %), HSBC has two representatives on the Supervisory Board, neither of whom is a German national. LBBW, the second-largest shareholder (holding a stake of just under 19 %), has one representative on the Supervisory Board. Of the eight shareholder representatives, six individuals hold professional experience obtained in senior positions in the banking sector; the two other individuals have each gained their experience in similar positions in other business sectors. In addition to the two HSBC representatives, one shareholder representative is not a German national.

Against this background, the Supervisory Board has formulated the following objectives for its composition, as provided by the German Corporate Governance Code:

1. The composition of the Supervisory Board shall be determined in the interest of the Company. The members of the Supervisory Board must be reliable, in line with the legal requirements applicable for credit institutions, and must have the professional aptitude necessary for carrying out their control functions, and also to assess and verify the Bank's business activities. The number of independent shareholder representative should be at least five.

2. One of the factors determining the Bank's business model is its close integration into the HSBC Group's global network. Accordingly, the Supervisory Board should always have at least two individuals holding senior positions at HSBC – with experience and expertise in the international business – as is presently the case.
3. Conflicts of interest affecting Supervisory Board members prevent them from giving independent and efficient advice to, and supervising, the Management Board. The Supervisory Board will decide on how to deal with any conflicts of interest which may arise on the merits of each individual case. In principle, any individual holding an office with one of the Bank's material competitors might be disqualified from election to the Bank's Supervisory Board. Since LBBW, the Bank's second-largest shareholder (holding a stake of just under 19 %), only competes with the Bank in certain business sub-segments, it should retain one representative on the Supervisory Board in the future.
4. The Supervisory Board does not consider any fixed age limit for membership of the Supervisory Board to be sensible. A fixed age limit would oblige the Bank to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, was providing valuable contributions for the Bank. Also, such a limit would contradict the general trend of postponing the statutory retirement age. Therefore, the Bank will continue not to comply with this recommendation of the Code.
5. At the time of election, candidates should not have been a member of the Supervisory Board for more than eight years. .

### ***Supervisory Board Committees***

The Supervisory Board set up five separate committees from amongst its members:

- **the Mediation Committee**, whose task it is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;
- **the Nomination Committee**, which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting, and which supports the Supervisory Board – in accordance with the provisions of the German Banking Act – *inter alia* in identifying candidates for appointment to the Management Board, and in reviewing the structure, size, composition and performance of the Management Board and the Supervisory Board;
- **the Remuneration Committee**, whose duties include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board (including its remuneration); long-term succession planning (to be pursued jointly with the Management Board); handling conflicts of interests affecting members of the Management Board or the Supervisory Board; monitoring whether remuneration systems are appropriate; monitoring the proper inclusion of internal control instances and any other relevant areas in the structuring of remuneration systems; and approving connected-party loans to the Bank's employees or to members of the Supervisory Board;

- **the Audit Committee**, which supports the Supervisory Board in various tasks, including the monitoring of the accounting and financial reporting process, the effectiveness of the risk management system, and in carrying out the audits of the financial statements – especially with regard to the independence of the external auditors proposed, and the services rendered by them;
- **the Risk Committee**, whose duties include advising the Supervisory Board on the Company's current and future total risk appetite and strategy; accepting the periodic reports of the Management Board on the Bank's risk situation and any substantial shortcomings identified by Internal Audit, as well as any material shortcomings not yet remedied. The Supervisory Board has delegated to the Committee, *inter alia*, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act – particularly with regard to connected-party loans to enterprises. Furthermore, the Risk Committee also discusses the risk strategy with the Management Board, who is responsible for devising it, and approves the strategy as well as any material changes thereto.

Resolutions of the Supervisory Board and its committees shall be adopted with a simple majority of votes cast, unless mandatory law provides otherwise. All the committees of the Supervisory Board consist of between three and five members. The Chairman of the Supervisory Board only chairs the Mediation, Nomination and Remuneration Committees. The members of the Management Board, Supervisory Board and of the Supervisory Board's committees are listed in the Annual Report, in the chapter 'Boards and Committees'. The Report of the Supervisory Board on its activities during the financial year under review, which has also been included in our Annual Report, describes in more detail the number of Supervisory Board and committee meetings as well as the specific items discussed during the financial year under review.

### **Gender quota**

As at the key date 31 December 2016 the Supervisory Board has two female members. In accordance with legal requirements which came into effect on 1 January 2016, the quota of female Supervisory Board members will be increased to a minimum of 30% in the event of replacements or new elections of members.

The Supervisory Board has determined a minimum target of 20% female Management Board members. Given that one of four members of the Management Board is female, the Bank complied with this target during the period under review.

The Management Board has set minimum female quotas of 10% for the first management level and of 20% for the second management level below the Management Board, to be achieved by 30 June 2017. At the time of determining these targets in 2015, 8% of executives on the first management level and 18% on the second management level were female; these quotas changed to 7% and 18%, respectively, by the end of 2016.

***Reporting duties regarding transactions in HSBC Trinkaus & Burkhardt shares, as well as rights to those shares in accordance with Section 15a of the German Securities Trading Act ("WpHG")***

In 2016, no transactions in HSBC Trinkaus & Burkhardt shares, or any rights to those shares which would require a disclosure under section 15 a of the WpHG and subsection 6.3 of the Corporate Governance Code, have been made by persons who are subject to a reporting requirement.

***Continuous monitoring***

We have entrusted the Bank's Company Secretary with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2016 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the Corporate Governance Code.

***Declaration pursuant to section 161 of the German Public Limited Companies Act (AktG) of the Management Board and the Supervisory Board regarding the German Corporate Governance Code***

The Management Board and the Supervisory Board of HSBC Trinkaus & Burkhardt AG declare that, subject to the exceptions and/or modifications as set out below, they have complied with the recommendations of the "Government Commission for the German Corporate Governance Code", as published in the official section of the web-based Federal Gazette in the version of 5 May 2014, and that they will continue to comply with this Code in the future.

The provisions in sections 4.2.4 and 4.2.5 of the Code concerning disclosure of personalised remuneration details for members of the Management Board are not applicable to the Bank since the General Meeting on 5 June 2012 resolved, with the requisite three-quarters majority, to refrain from disclosing such personalised information.

Section 5.4.1 is not implemented, to the extent that it provides for an age limit for Supervisory Board members. Such a limitation would needlessly restrict the Company's flexibility, since a fixed age limit would require a change in Supervisory Board membership even when a member, notwithstanding his or her age, was performing highly valuable services for the Bank.

The recommendation of the Government Commission in section 5.4.3 of the Corporate Governance Code has been implemented with the modification that elections to the Supervisory Board will only be made on an individual basis if a shareholder has presented a motion to this effect at the Annual General Meeting for which the election is scheduled. This regulation provides sufficient protection to shareholders whilst at the same time granting the necessary organisational flexibility.

Furthermore, the Company has refrained from adopting the recommendation of the Government Commission in sentence 3 of section 5.4.3 of the Code that the shareholders should be notified, in advance, of the candidates for an upcoming election of the chairperson of the Supervisory Board. According to the Articles of Association of HSBC Trinkaus and Burkhardt AG, the term of office for which members of the Supervisory Board are elected ends on the same date for all members, so that new elections at the end of a term are automatically new elections of the entire Supervisory Board. Upon such a complete new election, the newly-elected members convene immediately after the Annual General Meeting in which the election took place in order to appoint one of their number as the chairperson.

An earlier announcement of the candidates for the chairmanship by the old Supervisory Board (as recommended by the Code) would pre-determine and limit the freedom of the new Supervisory Board to appoint its chairperson. Even though the newly elected Supervisory Board would not be bound by the announcements of candidates for chairmanship proposed by the old Supervisory Board, any deviation from such proposals would result in negative publicity detrimental to the Bank.

The recommendation in section 5.4.6 concerning disclosure of individual remuneration details pertaining to Supervisory Board members (including fees for personal advisory or intermediation services rendered) in the Corporate Governance Report, has not been adopted. The Group Management Report of HSBC Trinkaus & Burkhardt AG contains details regarding the remuneration of Supervisory Board members. Such disclosure would constitute a gross interference with Supervisory Board members' right of privacy – particularly with respect to fees for personal services rendered, such as advisory services – without a strict necessity for such interference.

The Government Commission's Recommendation in section 6.1 is applied, with the clarifying note that parity of information between shareholders, financial analysts and comparable recipients is limited to information which may have an impact on the share price. For the purpose of clearly defining the scope of "passing on of information", expressions of opinion by members of the executive bodies in the press and other media, as well as background discussions with financial analysts and rating agencies, do not constitute "new facts" within the meaning of section 6.1 of the Code.

Varying from section 7.1.2, HSBC Trinkaus & Burkhardt AG will observe the statutory deadlines for the preparation of its consolidated financial statements and interim reports, to enhance its timing flexibility in preparing such statements and reports.

Düsseldorf, February 2017

For the  
Management Board:

For the  
Supervisory Board

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Carola Gräfin v. Schmettow  
- Chairwoman -

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Andreas Schmitz  
- Chairman -