

Corporate Governance Report 2013

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, presently consisting of four members. At the end of 2013, the Management Board was assisted by four Divisional Board members responsible for the Commercial Banking, Investment Banking, Technology and Services, and Asset Management 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 three 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 the case now.

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. In 2010, the Supervisory Board expressed its plans to raise the representation of women on the Supervisory Board from then two members by seeking the election of at least one more female member; at present, there are three female members. As in the past, when proposing candidates for election to shareholders, the Supervisory Board will solely consider the Company's best interests – without any regard to race, ethnic origin, gender, age, religion or political views.

Supervisory Board Committees

The Supervisory Board set up four separate committees from amongst its members in 2013:

- **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 by the General Meeting;
- **the Remuneration Committee**, whose responsibilities include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board), the long-term successor planning in cooperation with the Management Board, the handling of conflicts of interests of Management Board or Supervisory Board members, as well as the approval of loans from the Bank to its employees and their family members, or to members of the Supervisory Board;
- **the Audit and Risk Committee** which, in addition to the issuing of the audit mandate to the auditor, is responsible for the determination of the focal points for the audit, monitoring the auditor's independence and concluding a fee agreement with the auditor. The Committee also handles accounting and fundamental risk management issues, as well as regularly discussing the audit findings of Internal Audit and external auditors. 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 (Kreditwesengesetz) – particularly with regard to connected-party loans to enterprises. The Audit and Risk Committee also discusses the risk management strategy with the Management Board, responsible for devising it.

Resolutions of the Supervisory Board and its committees shall be adopted with a simple majority of votes cast, unless mandatory law provides otherwise. All the committees of the

Supervisory Board consist of between three and five members. The chairperson 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, 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.

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 2013, 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 2013 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 13 May 2013, and that they will continue to comply with this Code in the future.

The provisions in section 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 proposed by the old Supervisory Board, any deviation from such proposals would result in negative publicity detrimental to the Bank.

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

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

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

HSBC Trinkaus & Burkhardt AG will comply with the recommendation in section 7.1.4 subject to the legal disclosure thresholds being reached; this reference helps to avoid any interpretation issues.

Düsseldorf, February 2014

For the
Management Board:

For the
Supervisory Board

Andreas Schmitz
- Chairman -

Dr Sieghardt Rometsch
- Chairman -