PROXY PAPER

# HSBC HOLDINGS PLC

London Stock Exchange: **HSBA**

ISIN: **GB0005405286**

**MEETING DATE:** 28 APRIL 2017

**RECORD DATE:** 26 APRIL 2017

**PUBLISH DATE:** 27 MARCH 2017

**INDEX MEMBERSHIP:** DOW JONES GLOBAL TITANS 50; S&P GLOBAL 100; HANG SENG COMPOSITE; FTSE 100; HANG SENG; FTSE ALL-SHARE (GBP); FTSE4GOOD GLOBAL INDEX; S&P EUROPE 350; DJSI WORLD

**COMPANY DESCRIPTION**

HSBC Holdings plc provides banking and financial products and services in the United Kingdom and internationally.

**SECTOR:** FINANCIALS

**INDUSTRY:** BANKS

**COUNTRY OF TRADE:** UNITED KINGDOM

**COUNTRY OF INCORPORATION:** UNITED KINGDOM

**VOTING IMPEDIMENT:** NONE

**DISCLOSURES:** REFER TO APPENDIX REGARDING ENGAGEMENT AND EXPLANATION FOR REPUBLICATION



## 2017 ANNUAL MEETING

| PROPOSAL | ISSUE | BOARD | GLASS LEWIS | CONCERNS |
|---|---|---|---|---|
| 1.00 | Accounts and Reports | FOR | **FOR** | |
| 2.00 | Remuneration Report (Advisory) | FOR | **FOR** | |
| 3.00 | Election of Directors | FOR | **FOR** | |
| 3.01 | Elect David Nish | FOR | **FOR** | |
| 3.02 | Elect Jackson P. Tai | FOR | **FOR** | |
| 3.03 | Elect Phillip Ameen | FOR | **FOR** | |
| 3.04 | Elect Kathleen Casey | FOR | **FOR** | |
| 3.05 | Elect Laura CHA May Lung | FOR | **FOR** | |
| 3.06 | Elect Henri de Castries | FOR | **FOR** | |
| 3.07 | Elect Lord Evans of Weardale | FOR | **FOR** | |
| 3.08 | Elect Joachim Faber | FOR | **FOR** | |
| 3.09 | Elect Douglas J. Flint | FOR | **FOR** | |
| 3.10 | Elect Stuart T. Gulliver | FOR | **FOR** | |
| 3.11 | Elect Irene LEE Yun Lien | FOR | **AGAINST** | • **Overboarded** |
| 3.12 | Elect John P. Lipsky | FOR | **FOR** | |
| 3.13 | Elect Iain J. Mackay | FOR | **FOR** | |
| 3.14 | Elect Heidi G. Miller | FOR | **FOR** | |
| 3.15 | Elect Marc Moses | FOR | **FOR** | |
| 3.16 | Elect Jonathan Symonds | FOR | **FOR** | |
| 3.17 | Elect Pauline van der Meer Mohr | FOR | **FOR** | |

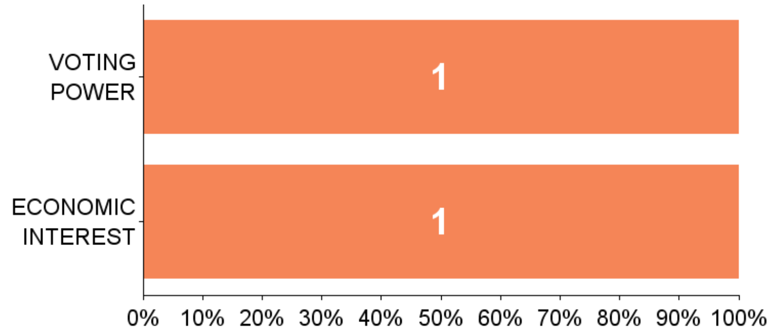
| | | | | |
|---|---|---|---|---|
| 3.18 | Elect Paul S. Walsh | FOR | **AGAINST** | • **Overboarded** |
| 4.00 | Appointment of Auditor | FOR | **FOR** | |
| 5.00 | Authority to Set Auditor's Fees | FOR | **FOR** | |
| 6.00 | Authorisation of Political Donations | FOR | **FOR** | |
| 7.00 | Authority to Issue Shares w/ Preemptive Rights | FOR | **FOR** | |
| 8.00 | Authority to Issue Shares w/o Preemptive Rights | FOR | **FOR** | |
| 9.00 | Authority to Issue Shares w/o Preemptive Rights (Specified Capital Investment) | FOR | **FOR** | |
| 10.00 | Authority to Issue Repurchased Shares | FOR | **FOR** | |
| 11.00 | Authority to Repurchase Shares | FOR | **FOR** | |
| 12.00 | Authority to Issue Contingent Convertible Securities w/ Preemptive Rights | FOR | **FOR** | |
| 13.00 | Authority to Issue Contingent Convertible Securities w/o Preemptive Rights | FOR | **FOR** | |
| 14.00 | Authority to Set General Meeting Notice Period at 14 Days | FOR | **FOR** | |

# SHARE OWNERSHIP PROFILE

## SHARE BREAKDOWN

| | 1 |
|---|---|
| **SHARE CLASS** | Ordinary Shares USD 0.50 |
| **SHARES OUTSTANDING** | 19,167.8 M |
| **VOTES PER SHARE** | 1 |
| **INSIDE OWNERSHIP** | 0.10% |
| **STRATEGIC OWNERS**** | 1.80% |
| **FREE FLOAT** | 98.20% |

*SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 27-MAR-2017*




## TOP 20 SHAREHOLDERS

| | HOLDER | OWNED* | COUNTRY | INVESTOR TYPE |
|---|---|---|---|---|
| 1. | BlackRock, Inc. | 6.26% | United States | Traditional Investment Manager |
| 2. | Legal & General Investment Management Limited | 2.79% | United Kingdom | Traditional Investment Manager |
| 3. | The Vanguard Group, Inc. | 2.54% | United States | Traditional Investment Manager |
| 4. | State Street Global Advisors, Inc. | 1.93% | United States | Traditional Investment Manager |
| 5. | Norges Bank Investment Management | 1.92% | Norway | Government Pension Plan Sponsor |
| 6. | Aberdeen Asset Management PLC | 1.64% | United Kingdom | Traditional Investment Manager |
| 7. | HSBC Global Asset Management (UK) Limited | 1.22% | United Kingdom | Traditional Investment Manager |
| 8. | Schroder Investment Management Limited | 0.99% | United Kingdom | Traditional Investment Manager |
| 9. | J.P. Morgan Asset Management, Inc. | 0.93% | United States | Traditional Investment Manager |
| 10. | Standard Life Investments Limited | 0.93% | United Kingdom | Traditional Investment Manager |
| 11. | Government Of People's Republic Of China | 0.81% | China | Government Institution |
| 12. | Aviva Investors Global Services Limited | 0.74% | United Kingdom | Traditional Investment Manager |
| 13. | Franklin Resources, Inc. | 0.72% | United States | Traditional Investment Manager |
| 14. | Northern Trust Global Investments | 0.66% | United States | Traditional Investment Manager |
| 15. | M&G Investment Management Limited | 0.64% | United Kingdom | Traditional Investment Manager |
| 16. | Royal London Asset Management Limited | 0.60% | United Kingdom | Traditional Investment Manager |
| 17. | JPMorgan Chase & Co, Brokerage and Securities Investments | 0.60% | United States | Bank/Investment Bank |
| 18. | Dimensional Fund Advisors LP | 0.53% | United States | Traditional Investment Manager |
| 19. | Majedie Asset Management Limited | 0.47% | United Kingdom | Traditional Investment Manager |
| 20. | Silchester International Investors LLP | 0.43% | United Kingdom | Traditional Investment Manager |

**COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 27-MAR-2017*
***CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.*

## SHAREHOLDER RIGHTS

| | MARKET THRESHOLD | COMPANY THRESHOLD[1] |
|---|---|---|
| VOTING POWER REQUIRED TO CALL A SPECIAL MEETING | 5.0% | 5.0% |
| VOTING POWER REQUIRED TO ADD AGENDA ITEM | 5.0%[2] | 5.0% |

[1]*N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.*
[2]*OR AT LEAST 100 HOLDERS OF PAID UP SHARES OF AT LEAST £100 EACH.*

# COMPANY PROFILE

## GENERAL

| | |
|---|---|
| **COUNTRY OF INCORPORATION** | *United Kingdom* |
| **STOCK MARKET** | *London Stock Exchange* |
| **LISTING SEGMENT** | *Premium Equity Commercial Companies* |
| **SUBJECT TO UK TAKEOVER CODE** | *Yes* |
| **FREE FLOAT REQUIREMENT** | *25%* |

## FINANCIALS

| | 1 YR TSR | 3 YR TSR AVG. | 5 YR TSR AVG. |
|---|---|---|---|
| **HSBA** | *32.1%* | *5.9%* | *11.8%* |
| **FTSE ALL-SHARE INDEX** | *16.8%* | *6.1%* | *10.1%* |

| | 31-DEC-2016 |
|---|---|
| **MARKET CAPITALIZATION (MM USD)** | 159,256 |
| **ENTERPRISE VALUE (MM USD)** | 545,100 |
| **REVENUES (MM USD)** | 44,562 |

*TSR FIGURES AS OF 31-DEC-2016. SOURCE: CAPITAL IQ. ANNUALIZED SHAREHOLDER RETURNS.*

## EXECUTIVE REMUNERATION

| | | | |
|---|---|---|---|
| **NON-BINDING SAY ON PAY VOTE** | *Yes* | **PAY POLICY LAST APPROVED** | *April 22, 2016* |
| **GLASS LEWIS STRUCTURE RATING** | *Good* | **GLASS LEWIS DISCLOSURE RATING** | *Good* |
| **SHARE DILUTION LIMITS** | *10%* | **EXECUTIVES SUBJECT TO OWNERSHIP GUIDELINES** | *Yes* |
| **STI RECOUPMENT PROVISIONS** | *Clawback & Malus* | **LTI RECOUPMENT PROVISIONS** | *Clawback & Malus* |
| **BONUS DEFERRAL** | *Yes, mandatory* | **LTI HOLDING PERIOD** | *Yes, entire award* |

## BOARD & MANAGEMENT

| | | | |
|---|---|---|---|
| **ELECTION METHOD** | *Majority* | **CEO START DATE** | *January 1, 2011* |
| **STAGGERED BOARD** | *No* | **CHAIR START DATE** | *December 3, 2010* |
| **CHAIR STATUS** | *Executive Chair* | **AVERAGE NED TENURE** | *3 years* |
| **LAST TRIENNIAL EXTERNAL REVIEW** | *2016* | **ANNUAL REVIEW OF BOARD EFFECTIVENESS** | *Yes* |
| **DESCRIPTION OF DIVERSITY POLICY** | *Yes* | **% OF WOMEN ON BOARD** | *28%* |

## AUDITORS

| | |
|---|---|
| **AUDITOR: PRICEWATERHOUSECOOPERS** | **TENURE: 2 YEARS** |
| **EMPHASIS OF MATTER IDENTIFIED IN PAST 12 MONTHS** | *No* |
| **MATERIAL RESTATEMENT(S) IN PAST 12 MONTHS** | *No* |

*CURRENT AS OF MAR 27, 2017*

# ENVIRONMENTAL, SOCIAL & GOVERNANCE PROFILE

## OVERALL ESG SCORE

**Average Performer**

Comparative Industry: **Banks**

Board oversight for ESG Issues: **Yes**

All data and ratings provided by:

SUSTAINALYTICS

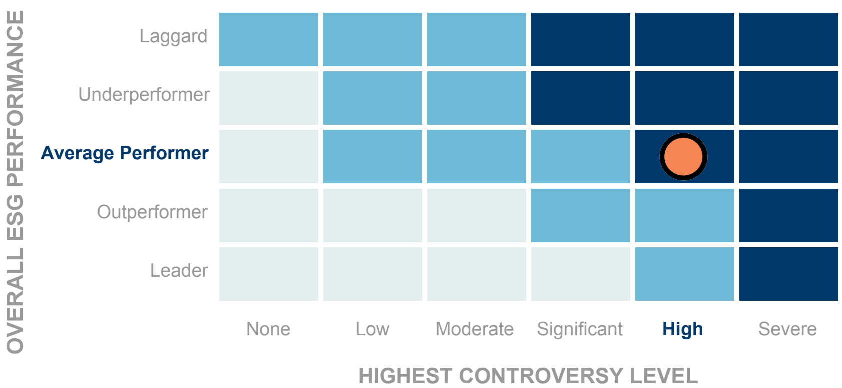
Last Update: **March 01, 2017**

## ANALYST COMMENTARY

With total assets of USD 2.41 trillion, HSBC Holdings plc (HSBC) serves over 47 million customers in 71 countries. Although the company expanded its overseas network to six continents, in FY2015 70% of its profit before taxes was obtained in the Asia-Pacific region. Given HSBC's size and operational focus on emerging markets, the company is exposed to regulatory and media scrutiny, indicating Business Ethics as a key ESG issue. Since managing the environmental and social risks associated with the lending activities should be an area of focus for any financial institution, Responsible Finance is considered to be the second ESG issue applicable to HSBC. Furthermore, as in FY2015 the company's Retail Banking and Wealth Management (RBWM) segments generated 26.3% of the total profit before tax of USD 18,867 million, we identify Financial Product Governance as another key ESG issue for HSBC. Although the company's policies and programmes in the area of ESG are strong, its continuous involvement in related controversies determines us to express an overall neutral view on its management of the above mentioned issues. Notable Trends: HSBC is classified as a global systemically important bank (G-SIB) with additional loss absorbency requirements of 7% for Common Equity Tier 1 (CET1). In FY2015, HSBC's CET1 ratio was 11.9% clearly surpassing regulatory requirements. The results of the European Banking Authority's (EBA) 2016 stress test projected a low point of 8.7% demonstrating a measure of HSBC's resilience to severe stress situations with respect to its core markets.

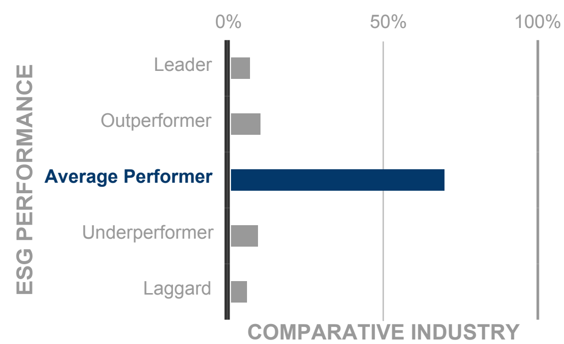
## ESG RISK PROFILE

The graph below compares the Company's ESG performance to its involvement in controversies in order to provide an assessment of the Company's ESG risk profile.



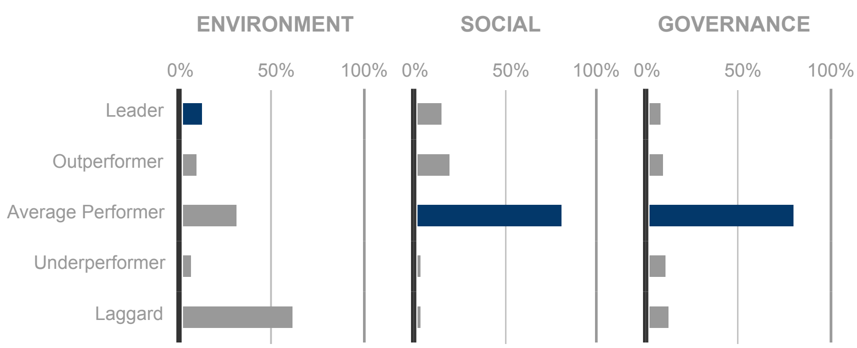

## OVERALL ESG PERFORMANCE

The graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category.




## ESG PILLAR PERFORMANCE

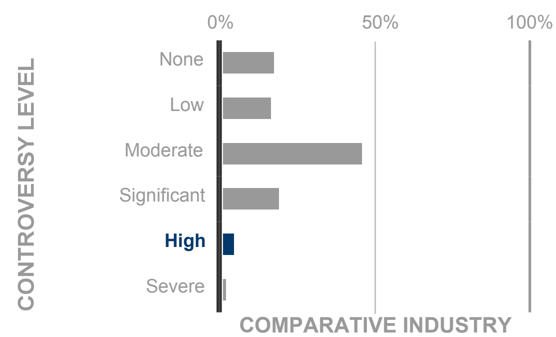
For each pillar, the graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category. The governance pillar shown below is measured by Sustainalytics based on the Company's governance of sustainability issues.




Rows and categories shown in dark blue or bold represent the Company's category for the relevant assessment.

## HIGHEST CONTROVERSY LEVEL

The graph below indicates the percentage of companies in the comparative industry that fall within each controversy level.



## NOTEWORTHY CONTROVERSIES

### SEVERE

Severe controversies are the most serious controversy level. They have the greatest negative impact on stakeholders and generate the greatest risk to a company's financial performance. Such controversies are highly exceptional. They indicate egregious practices and generally reflect a pattern of gross negligence, with the Company refusing to address the issue and/or concealing its involvement.

**No severe controversies**

### HIGH

High-impact controversies are those that have major negative sustainability impacts and typically generate significant business risk to the Company. Such controversies are generally exceptions within an industry. They typically involve a pattern of negative events or impacts and indicate a lack of company preparedness to properly manage key sustainability issues.

**Business Ethics Incidents:**
- **Business Ethics**

### SIGNIFICANT

Significant controversies have notable negative sustainability impacts and may generate business risk to the Company. Such controversies may be isolated or they may suggest a pattern, but they are generally not exceptional within an industry. However, they raise questions about whether a company's management systems are being implemented effectively and are able to address the issue in a satisfactory manner.

**Product & Service Incidents:**
- **Environmental Impact of Products**

**Customer Incidents:**
- **Quality and Safety**

**Society & Community Incidents:**
- **Social Impact of Products**

## NO PRODUCT INVOLVEMENT


## DISCLAIMER



Please refer to the FAQ for further details about this page.

All data and ratings provided by:

# REMUNERATION DETAILS

**HSBC Holdings**

The Company paid: less remuneration to its CEO than the median CEO remuneration for a group of similarly sized UK companies with an average market capitalization of £78.36 billion; more than a group of UK based companies in the Financials sector; and more than a group of European Banks. Overall, the Company performed worse than the peers.

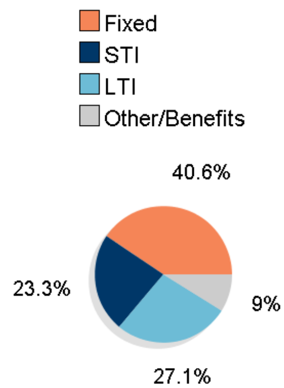
**CEO Remuneration**

| *All figures in £* | 2016 |
|---|---|
| Fixed | 2,950,000 |
| STI | 1,695,000 |
| LTI | 1,969,000 |
| Pensions | 375,000 |
| Other / Benefits | 655,000 |
| Total remuneration | 7,269,000 |

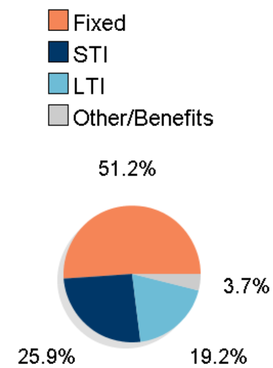
Notes: Fixed comprises cash salary (£1,250,000) and share allowance (£1,700,000); STI includes deferred element; and LTI reflects face value at grant date and is based on performance during FY2015.

## Composition of Remuneration

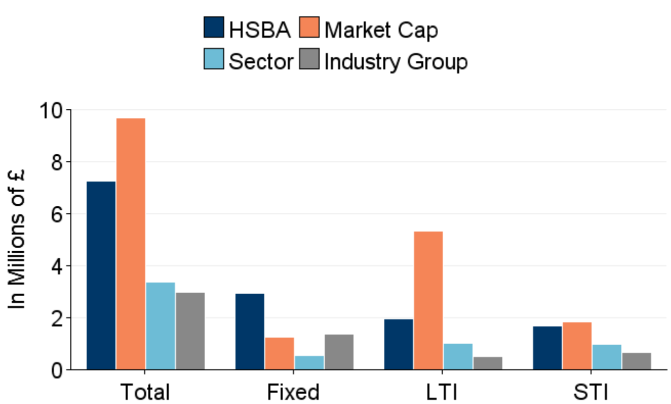
### Company's CEO



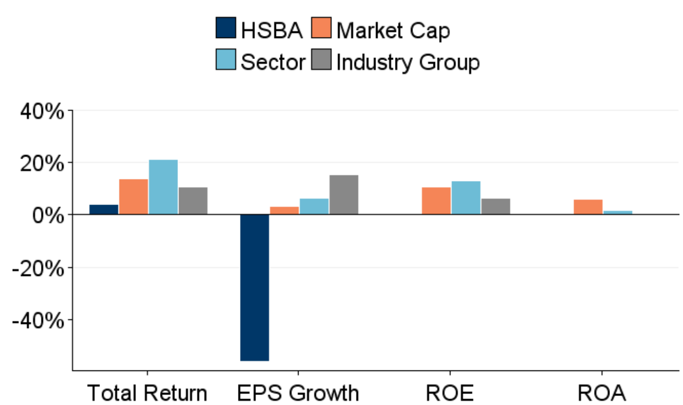

### Industry Group CEO




## CEO Compared To Median




## Shareholder Wealth and Business Performance




Note: Remuneration analysis for period ending December 31, 2016. Total return and EPS growth based on weighted average of annualized 1, 2 and 3 year data. Total remuneration does not include pensions.

# 1.00: ACCOUNTS AND REPORTS

FOR

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Receipt of financial statements and reports | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 98.6% | **FOR-** | No material concerns |
| **BINDING/ADVISORY:** | Binding | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |
| **AUDITOR OPINION:** | Unqualified | | |

## GLASS LEWIS ANALYSIS

Shareholders will receive and consider the Company's financial statements and directors' and auditor's reports for the fiscal year ended December 31, 2016. Shareholders are voting to approve receipt of the statements and reports, not to approve their substance and content.

We believe that all of the necessary financial statements and reports are present in the Company's annual report. We note that in the opinion of PricewaterhouseCoopers, the Company's independent auditor, the financial statements and the directors' reports have been properly prepared in accordance with International Financial Reporting Standards, Article 4 of the IAS Regulation and the UK Companies Act 2006.

We recommend that shareholders vote **FOR** this proposal.

# 2.00: REMUNERATION REPORT (ADVISORY)

FOR

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Approve Remuneration Report (Advisory) | **RECOMMENDATION:** | FOR |
| **PRIOR YEAR VOTE RESULT (FOR):** | 90% | | |
| **BINDING/ADVISORY:** | Advisory | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |

## EXECUTIVE SUMMARY

| KEY AREAS OF FOCUS | GLASS LEWIS RECOMMENDATION: FOR |
|---|---|
| • Salary: Frozen (as compared with 4% increase for the broader workforce)<br>• STI: Payouts of between 136% and 144% of base salary<br>• STI: Downward discretion exercised by the committee<br>• LTI: No awards were eligible to vest during the year<br>• Pension: Max entitlement is 30% of salary | No material concerns |

**MATERIAL CHANGES TO IMPLEMENTATION OF POLICY**

The committee intends to implement the following change:

- STI: Rentention of shares for a period of one year after vesting from FY2017 (FY2016: six months)

### CEO PAY: THREE-YEAR LOOKBACK

| COMPONENT | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salary | £1,250,000 | £1,250,000 | £1,250,000 |
| Fixed pay allowance | £1,700,000 | £1,700,000 | £1,700,000 |
| Annual bonus payout* | 64% | 45% | 54% |
| LTIP vesting levels* | - | 41% | 44% |
| Total (Single Figure) | £5,675,000 | £7,340,000 | £7,619,000 |

*As a percentage of maximum opportunity

## IMPLEMENTATION OF POLICY FY2016

### SINGLE TOTAL REMUNERATION FIGURE

| NAME AND TITLE | SALARY | FIXED PAY ALLOWANCE | BENEFITS | PENSION | BONUS AWARDS | VESTED INCENTIVES | NOTIONAL RETURNS* | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Douglas Flint** *Executive chair* | £1,500,000 | - | £186,000 | £450,000 | - | - | - | £2,136,000 |
| **Stuart Gulliver** *Group Chief executive* | £1,250,000 | £1,700,000 | £628,000 | £375,000 | £1,695,000 | - | £27,000 | £5,675,000 |
| **Ian Mackay** *Group Finance director* | £700,000 | £950,000 | £89,000 | £210,000 | £987,000 | - | £17,000 | £2,953,000 |
| **Marc Moses** *Group Risk officer* | £700,000 | £950,000 | £53,000 | £210,000 | £1,005,000 | - | £18,000 | £2,936,000 |

* Indicates returns earned on deferred bonuses

## FIXED

*Base salaries did not increase during the year under review. In addition, the committee states that base salary increases will not exceed 15% in total during the three-year term of the policy*

## FIXED PAY ALLOWANCE

*In order to maintain competitive remuneration levels while achieving compliance with the EU Capital Requirements IV directive (effective since January 1, 2014), the Company introduced a fixed pay allowance. CRD IV requires that relevant companies limit the ratio of variable to fixed compensation to Code Staff to 1:1, or up to 2:1 with shareholder approval. The Company successfully sought approval for the latter at the 2014 AGM.*

*Fixed pay allowances are determined based on the role and responsibility of each individual. The maximum potential annual fixed pay allowance is 150% of base salary and the allowances are granted in shares that vest immediately on a quarterly basis or "at any other frequency that the Committee deems appropriate".*

*The fixed pay allowances will be released in shares annually on a pro-rata basis over five years, starting from the March immediately following the end of the fiscal year in which the shares are granted in respect of. The executive chair is not eligible for a fixed pay allowance.*

## SHORT-TERM INCENTIVES

| | ANNUAL BONUS SCHEME FY2016 |
|---|---|
| **AWARD TYPE** | *Cash, deferred shares* |
| **MAXIMUM PAYOUT** | *215% of base salary.*<br><br>*Awards to be granted in the current fiscal year will be limited to 213% of base salary.* |
| **ACTUAL PAYOUT** | *In order for any payout to be made, the executives must meet a required behavioural rating which is referenced to the Company values; in FY2016, all executives met the rating*<br><br>*136% of base salary for the Group chief executive, 141% of base salary for the Group finance director and 144% of base salary for the Group chief risk officer* |
| **DEFERRAL PROVISIONS** | *For FY2016, the entire award was subject to a minimum six-month retention period; however, from FY2017, the entire award will be subject to a retention period of one-year.* |
| **RECOVERY PROVISIONS** | *Clawback and malus in the event of misstatement, misconduct, reputational damage or an error in calculating performance for a period of seven to ten years* |
| | *The executive chair doesn't participate in the annual incentive scheme.*<br><br>*The committee may reduce (to zero if appropriate) the annual incentive payout based on the outcome of the performance measures, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Company during the performance period.*<br><br>***FY2016***<br>*The committee exercised its discretion and reduced the Global Standards assessments from 75% to 65% for the Group chief executive, 86% to 65% for the Group finance director and 74% to 65% for the Group chief risk officer, based on feedback received from the DPA Monitor, matters arising from risk and compliance incidents, and a number of unsatisfactory internal audits covering AML and sanctions-related issues.*<br><br>*Further, downward adjustments were applied at the variable pay pool level during FY2016. The variable pay pool was adjusted by $194m to reflect fines, penalties and the cost of customer redress, and $309m for financial performance in key areas, performance against certain metrics in the risk appetite profile and continuted work required to address financial crime compliance issues and the embedding of Global Standards within the business.*<br><br>*The targets under the PBT metric were lowered from $21.2bn in FY2015 to $20.6bn in FY2016.*<br><br>*Strategic growth measures on optimising global network, rebuilding NAFTA region profitability, delivering growth above GDP from international network, pivot to Asia and renminbi internationalisation.*<br><br>*Non-financial performance measures for the Group chief executive included:* |

- ***Global Standards including risk and compliance:*** *Effective risk management in compliance with AML, sanctions and anti-bribery and corruption policies; Enhancement of customer due diligence; Implementation and embedding of global conduct programme; and Progress on embedding Global Standards; and*
- ***Personal objectives:*** *Progress transactions in Brazil and Turkey; Progress key milestones on set-up of UK ring-fenced bank; Delivery of other high-priority projects; and People development including diversity.*

**NOTES**

*Non-financial performance measures for the Group finance director included:*

- ***Global Standards including risk and compliance:*** *Strengthen governance and control around financial processes; Delivery of controls optimisation project; Implementation and embedding of global conduct programme; Enhancement of operational risk management framework; and Successful delivery of stress testing in key markets; and*
- ***Personal objectives:*** *Deliver cost savings; Implementation of consistent capital management framework; Progress key milestones on set-up of UK ring-fenced bank; and People development including diversity.*

*Non-financial performance measures for the Group chief risk officer included:*

- ***Global Standards including risk and compliance:*** *Effective risk management in compliance with AML, sanctions and anti-bribery and corruption policies; Enhancement of customer due diligence; Implementation and embedding of global conduct programme; Enhancement of operational risk management framework; and Implementation of US risk management measures; and*
- ***Personal objectives:*** *Deliver cost savings; Successful delivery of stress testing; Support business growth and improve RWA effectiveness/efficiency; and People development including diversity.*

***FY2017***
*The weightings will remain the same in the current fiscal year, except for the Group finance director who will have an additional metric of capital management which will account for 25% of the total award, reducing his PBT and delivery of cost saving measures to 10% each (previously 20%) and his personal objectives from 25% to 20%.*

*In addition, the committee provide detailed disclosure of the executives Global Standards and personal objectives for FY2017 on page 169 of the 2016 annual report.*

**METRICS**

| CONDITIONS | WEIGHTING | FY2016 TARGETS | FY2016 ACTUAL | FY2016 OUTCOME* |
|---|---|---|---|---|
| ***Financial*** | | | | |
| Adjusted PBT** | CEO: 20%<br>CFO: 20%<br>CRO: 10% | Threshold: $19.7bn<br>Maximum: $20.6bn | $18.2 bn | Nil |
| Deliver cost savings | CEO: 20%<br>CFO: 20% | Threshold: $34.0bn<br>Maximum: $32.9bn | $30.7 bn | 100% |
| Reduce group RWAs | CEO: 10%<br>CFO: 10%<br>CRO: 15% | Threshold: $100.0bn<br>Maximum: $110.0bn | $143.0 bn | 100% |
| Strategic growth | CEO: 10% | *See notes above* | | 52.7% |
| ***Non-financial / Strategic*** | | | | |
| Global standards including risk and compliance | CEO: 25%<br>CFO: 25%<br>CRO: 50% | *See notes above* | | 65% |
| Personal objectives | CEO: 15%<br>CFO: 25%<br>CRO: 25% | *See notes above* | | CEO: 81.27%<br>CFO, CRO: 80% |

* As a percentage of maximum opportunity
** Adjusted profit before tax, as defined for Group annual bonus pool calculation, excludes the year-on-year effects of foreign currency translation differences, fair value movements on the Company debt, business disposal gains and losses, acquisitions and goodwill, debt valuation adjustments, restructuring costs included in costs to achieve and variable pay expense. The adjusted profit before tax includes the cost of fines, penalties and of customer redress.

# LONG-TERM INCENTIVES

| LONG TERM INCENTIVE PLAN ("LTIP") | |
|---|---|
| **AWARD TYPE** | *Performance shares* |
| **GRANT LEVELS** | *320% of base salary.*<br>*Grants to be made in March 2017 will be at 319% of base salary for all executives.* |
| **PERFORMANCE PERIOD** | *3 years* |
| **ADDITIONAL HOLDING** | *Awards vest in five equal instalments with the first vesting on or around the third anniversary of the grant date, and the last vesting on or around the seventh anniversary of the grant date* |
| **RECOVERY PROVISIONS** | *Clawback and malus in the event of misstatement, misconduct, reputational damage or an error in calculating performance for a period of seven to ten years from the date of the award* |
| **VESTED AWARDS** | *Not applicable; no awards have been granted to date under the plan, the first grants will be made in March 2017 for the three year performance period starting January 1, 2017.* |
| **PEER GROUP** | *Australia and New Zealand Banking Group, Bank of America, Barclays, BNP Paribas,Citigroup, Credit Suisse Group, DBS Group Holdings, Deutsche Bank, JPMorgan Chase & Co., Lloyds Banking Group, Standard Chartered and UBS Group* |
| **NOTES** | *The executive chair does not participate in the long-term incentive plan.*<br>*Metrics and targets below relate to the first awards to be made under this plan in FY2017.*<br>*Global standards:*<br>• ***DPA status:*** *Executives achieve 100% of maximum when all commitments to achieve closure of the DPA are met and the Company is protected from further regulatory censure for financial crime compliance failings; and*<br>• ***Compliance with Global Crime Compliance policies and procedures:*** *performance will be assessed against a number of qualitative and quantitative inputs such as feed back from the Financial System Vulnerabilities Committee, Group Financial Crime Risk assessment against Financial Crime Compliance objectives, outcome of assurance and audit reviews, and achievement of the long-term objectives and priorities of the Company during the performance period.*<br>*The committee has the discretion to make adjustments to performance targets to reflect significant one-off items that occur during the measurement period.* |

**METRICS**

**ROE (20%)**

| Vesting* | Performance** | Measured |
|---|---|---|
| 25% | 7.0% | Total over period |
| 50% | 8.5% | |
| 100% | 10.0% | |

**Cost Efficiency (adjusted jaws) (20%)**

| Vesting* | Performance** | Measured |
|---|---|---|
| 25% | Positive | Total over period |
| 50% | 1.5% | |
| 100% | 3.0% | |

**Relative TSR (20%)**

| Vesting* | Performance** | Measured |
|---|---|---|
| 25% | Median | Against peers |
| 100% | Upper quartile | |

**Global Standards including Risk and Compliance (25%)**

| Vesting* | DPA status | Achieve and sustain compliance with Global Financial Crime Compliance policies and procedures** |
|---|---|---|
| 25% | See notes above | See notes above |
| 50% | | |

| | |
|---|---|
| 100% | |

| Strategy (15%) | | | | |
|---|---|---|---|---|
| Vesting* | International client revenues (Share of revenues supported by international network) | Revenue synergies (Share of revenues supported by universal banking model) | Employee engagement (Results of employee survey) | Customer (Based on customer recommendation in home country markets) |
| 25% | 50% | 22% | 65% | Rank within top three in at least two of the four RBWM and CMB customer segments |
| 50% | 51% | 23% | 67% | Rank within top three in three of the four RBWM and CMB customer segments |
| 100% | 52% | 24% | 70% | Rank within top three in all four RBWM and CMB customer segments |

**Underpin:** The committee has the discretion to reduce (to zero if appropriate) the LTIP payout based on the outcome of the performance measures, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Company during the performance period

***Percent of this portion of an award **Straight-line vesting between points**

## GLASS LEWIS ANALYSIS

UK firms are required to fully disclose and explain all aspects of their executive directors' remuneration so shareholders can analyse the implementation of the remuneration policy during the past fiscal year. In completing our assessment of a Company's remuneration report, we consider (among other factors): (i) the appropriateness of the overall remuneration structure with regard to strategy and risk; (ii) the implementation of remuneration policy and pay outcomes during the year under review; and (iii) the quality and transparency of a committee's disclosure.

In this case, we believe shareholders should be mindful of the following:

***STI: Lowering of PBT Performance Condition***
The Company has lowered the profit before tax ("PBT") targets attached to awards made under its short-term incentive plan below previous targets for the second consecutive year, from $21.1bn in FY2015 to $20.6bn in FY2016 (FY2014: $21.6bn). To our knowledge, the committee has not provided an explicit explanation of this adjustment, though we note the committee chair's disclosure that PBT for the year fell 61% to $7.1bn (2016 annual report, p.153).

In this case, we note that while executives received payouts of between 64% and 68% of maximum total opportunity in FY2016, performance under the PBT element has failed to meet targets in recent years. As such, and given the Company's current operating environment, we believe it reasonable that PBT targets be adjusted so as to retain their efficacy as an incentive. We will, however, continue to monitor this issue going forward.

## RECOMMENDATION

The remuneration report provides a comprehensive overview of the Company's executive compensation policies and structure. As shown in our peer group comparison of executive compensation, the remuneration levels of the CEO remained reasonable and in line with the Company's UK and European peers for the past fiscal year. Further, we acknowledge the committee's decision to exercise downward discretion on annual bonus outcomes and its enhanced disclosure of LTIP performance conditions.

As such, we find the committee's implementation of its approved remuneration policy during the past year to be supportable.

We recommend that shareholders vote **FOR** this proposal.

# 3.00: ELECTION OF DIRECTORS

**FOR**

**PROPOSAL REQUEST:** Election of eighteen directors

**ELECTION METHOD:** Majority

**RECOMMENDATIONS & CONCERNS:**

| | | |
|---|---|---|
| **AGAINST-** | **Walsh P.** | Serves on too many boards |
| | **Lee I.** | Serves on too many boards |
| **FOR-** | **Ameen P.**<br>**Casey K.**<br>**de Castries H.**<br>**Faber J.**<br>**Flint D.**<br>**Gulliver S.**<br>**Lipsky J.**<br>**Mackay I.**<br>**Cha L.**<br>**Miller H.**<br>**Moses M.**<br>**Nish D.**<br>**of Weardale L.**<br>**Symonds J.**<br>**Tai J.**<br>**van der Meer Mohr P.** | |
| **NOT UP-** | **None** | |

## PROPOSAL SUMMARY

In line with the UK Corporate Governance Code (the "UK Code"), all directors stand for election annually.

## BOARD OF DIRECTORS

| UP | NAME | AGE | GENDER | GLASS LEWIS CLASSIFICATION | COMPANY CLASSIFICATION | OWNERSHIP** | COMMITTEES AUDIT | REM | NOM | RISK | TERM START | TERM END | YEARS ON BOARD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ✔ | Douglas J. Flint* ·*Chair* | 61 | M | Insider [1] | Not Independent | Yes | | | | | 1995 | 2017 | 22 |
| ✔ | Stuart T. Gulliver* ·*CEO* | 58 | M | Insider [2] | Not Independent | Yes | | | | | 2008 | 2017 | 9 |
| ✔ | Iain J. Mackay* | 55 | M | Insider [3] | Not Independent | Yes | | | | | 2010 | 2017 | 7 |
| ✔ | Marc Moses* | 59 | M | Insider [4] | Not Independent | Yes | | | | | 2014 | 2017 | 3 |
| ✔ | Phillip D. Ameen | 69 | M | Independent [5] | Independent | Yes | ✔ | | | | 2015 | 2017 | 2 |
| ✔ | Kathleen L. Casey | 51 | F | Independent | Independent | Yes | ✔ | | | | 2014 | 2017 | 3 |
| ✔ | Laura M.L. Cha | 67 | F | Independent [6] | Independent | Yes | | | ✔ | | 2011 | 2017 | 6 |
| ✔ | Henri de Castries | 62 | M | Independent | Independent | Yes | | | | | 2016 | 2017 | 1 |
| ✔ | Joachim Faber | 66 | M | Independent | Independent | Yes | | | | C | 2012 | 2017 | 5 |
| ✔ | Irene Y-L Lee* | 63 | F | Independent | Independent | Yes | | | | | 2015 | 2017 | 2 |
| ✔ | John P. Lipsky | 70 | M | Independent | Independent | Yes | | ✔ | ✔ | ✔ | 2012 | 2017 | 5 |
| ✔ | Heidi G. Miller | 64 | F | Independent [7] | Independent | Yes | | | | ✔ | 2014 | 2017 | 3 |
| ✔ | David T. Nish | 57 | M | Independent | Independent | Yes | ✔ | | | | 2016 | 2017 | 1 |
| ✔ | Lord Evans of Weardale | 59 | M | Independent | Independent | Yes | | | | | 2013 | 2017 | 4 |
| ✔ | Jonathan R. Symonds | 58 | M | Independent [8] | Independent | Yes | C | | | | 2014 | 2017 | 3 |
| ✔ | Jackson P. Tai | 66 | M | Independent | Independent | Yes | | | | ✔ | 2016 | 2017 | 1 |
| ✔ | Pauline F.M. van der Meer Mohr | 57 | F | Independent | Independent | Yes | | C | ✔ | | 2015 | 2017 | 2 |
| ✔ | Paul S. Walsh | 62 | M | Independent | Independent | Yes | | ✔ | ✔ | | 2016 | 2017 | 1 |

C = Chair, * = Public Company Executive, ▬ = Withhold or Against Recommendation

1. Executive chair. Will retire from the board with effect from September 30, 2017.
2. Group chief executive. Chair of The Hongkong and Shanghai Banking Corporation Limited, a subsidiary of the Company.
3. Group finance director.
4. Group chief risk officer.
5. Non-executive director of various U.S. subsidiaries.
6. Deputy chair of the Hongkong and Shanghai Banking Corporation Limited, a subsidiary of the Company.
7. Chair of HSBC North American Holdings Inc.
8. Non-executive chair of HSBC Bank plc, the Company's European subsidiary.

***Percentages displayed for ownership above 3%, when available*

| NAME | ATTENDED AT LEAST 75% OF MEETINGS | PUBLIC COMPANY EXECUTIVE | ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS |
|---|---|---|---|
| Douglas J. Flint | Yes | Yes | None |
| Stuart T. Gulliver | Yes | Yes | None |
| Iain J. Mackay | Yes | Yes | None |
| Marc Moses | Yes | Yes | None |
| Phillip D. Ameen | Yes | No | None |
| Kathleen L. Casey | Yes | No | None |
| Laura M.L. Cha | Yes | No | (3) China Telecom Corporation Ltd.; Unilever plc; Unilever N.V. |
| Henri de Castries | N/A | No | (1) Nestle S.A. |
| Joachim Faber | Yes | No | (2) Deutsche Börse AG; Coty Inc |
| Irene Y-L Lee | Yes | Yes | (5) Hysan Development Company Limited; Hang Seng Bank Limited; Cathay Pacific Airways Limited; Noble Group Limited; CLP Holdings Limited |
| John P. Lipsky | Yes | No | None |
| Heidi G. Miller | Yes | No | (2) General Mills, Inc.; First Data Corporation |
| David T. Nish | N/A | No | (3) Vodafone Group plc; London Stock Exchange Group plc; Zurich Insurance Group AG |
| Lord Evans of Weardale | Yes | No | None |
| Jonathan R. Symonds | Yes | No | (1) Innocoll AG |
| Jackson P. Tai | N/A | No | (3) Eli Lilly and Company; Koninklijke Philips N.V.; Mastercard Incorporated |
| Pauline F.M. van der Meer Mohr | Yes | No | (2) ASML Holding N.V.; Koninklijke DSM NV |
| Paul S. Walsh | Yes | No | (5) Compass Group plc; Avanti Communications Group plc; FedEx Corporation; RM2 International S.A.; Pace Holdings Corp. |

## MARKET PRACTICE

| INDEPENDENCE AND COMPOSITION | HSBA* | REQUIREMENT | BEST PRACTICE |
|---|---|---|---|
| Independent Chair | No | Independent on appointment[1] | Same[1] |
| Board Independence | 78% | 50% excluding ind.-on-appt. chair[2] | Same[2] |
| Audit Committee Independence | 100% ; Independent Chair | 100%[2] | Same[2] |
| Remuneration Committee Independence | 100% ; Independent Chair | 100%[2] | Same[2] |
| Nominating Committee Independence | 100% | Majority[2] | Same[2] |
| Percentage of women on board | 28% | None | 33% by 2020 (FTSE 350 only)[3] |
| Directors' biographies | Biographical details for current directors can be found on pages 133 - 136 of the Company's annual report. | | |

** Based on Glass Lewis Classification*

1. *UK Corporate Governance Code recommendation; a Senior Independent Director should also be appointed*
2. *UK Corporate Governance Code recommendation*
3. *Hampton-Alexander Review*

## UK CODE COMPLIANCE

Companies listed on the London Stock Exchange are required to comply or explain against the UK Code.

The board states that during the past fiscal year, the Company complied fully with the provisions of the UK Code as well as the requirements of the Hong Kong Corporate Governance Code.

# GLASS LEWIS ANALYSIS

We believe shareholders should be mindful of the following:

## REGULATORY CAPITAL

Following the global financial crisis, and amid concerns that some banks were ill-prepared to absorb losses in the event of an extreme downturn, members of the Basel Committee on Banking Supervision agreed upon increased capital requirements and imposed increased regulatory limits on bank liquidity and bank leverage, known as Basel III. Since January 2015 the Company and other global banks have been required to meet these more stringent capital holding requirements, and an additional capital conservation buffer (consisting entirely of common equity), intended to assist in absorbing losses during stress periods, by 2019.

In Europe, the European Commission has incorporated Basel III recommendations into binding EU law through amendments to the Capital Requirements Directive and its associated Regulation ("CRD IV"), which entered into effect on January 1, 2014.

The Company's capital ratios in relation to these requirements are displayed in the below table (regulatory capital ratios are calculated by dividing tier 1 and total capital by risk-weighted assets):

| Regulatory Capital and Capital Ratios (US$ millions) | Basel III requirement | 2016 | 2015 |
|---|---|---|---|
| Tier 1 Capital | N/A | 138,022 | 153,303 |
| Total Regulatory Capital | N/A | 172,358 | 189,833 |
| Total Risk-Weighted Assets | N/A | 857,181 | 1,102,995 |
| Tier 1 Capital Ratio | 6% | 16.1% | 13.9% |
| Total Capital Ratio | 8% | 20.1% | 17.2% |

Source: 2016 annual report, p.127

Although it is difficult to predict the regulatory landscape post-Brexit, capital requirements are unlikely to change significantly in the short term. Some provisions of CRD IV are derived from EU law, for example certain provisions relating to corporate governance and remuneration, and therefore could theoretically be dispensed with post-Brexit; however, since the UK remains a part of the Basel Committee on Banking Supervision it will likely retain the capital requirements enshrined in Basel III (‘Brexit: financial services”. *European Union Committee, House of Lords*. December 15, 2016).

***2016 Bank of England Stress Test***

The Bank of England ("BOE") conducted its third concurrent stress test of the UK banking system during 2016. Where the 2014 test considered resilience to a ‘snap back’ in interest rates, and the 2015 test focused on global risks, the 2016 test was both broader and more severe; incorporating a synchronized UK and global economic recession, a coinciding financial market shock, and a separate misconduct cost stressor (‘Stress testing the UK banking system: 2016 results”. *Bank of England*. November, 2016). The 2016 stress test also includes higher standards for banks designated as systemically important. Due to the BOE's classification of the Company as systemically important, it required an additional buffer of CET1 capital which was incorporated into the setting of a systemic reference point of 7.3% ("The Bank of England's approach to stress testing the UK banking system". *Bank of England*. October, 2015).

The Company passed with a common equity tier 1 (CET1) capital ratio of 9.1% versus the required 7.3%. According to the board:

> "This outcome reflected our conservative risk appetite, and diversified geographical and business mix. It also reflected our ongoing strategic actions, including the sale of operations in Brazil, RWA reductions in GB&M and continued sales from our US CML run-off portfolio. These actions have materially reduced our RWAs, strengthened our capital position and made us even more robust under stress" (2016 annual report, p. 70).

The Company's performance under the BOE stress test, as compared with its listed UK peers, is illustrated in the below table:

| Projected Solvency Ratios (end-2015) | CET1 Ratio | Min. Stressed Ratio (*before* the impact of management actions) | Min. Stressed Ratio (*after* the impact of management actions) |
|---|---|---|---|
| Barclays | 11.4% | 5.9% | 8.3% |
| HSBC | 11.9% | 7.6% | 9.1% |
| Lloyds Banking Group | 12.8% | 9.7% | 10.3% |
| The Royal Bank of Scotland Group | 15.5% | 5.5% | 6.7% |
| Standard Chartered | 12.6% | 5.5% | 7.2% |

Source: Bank of England - Stress testing the UK banking system: 2016 results.

***2017 Stress Test***
We note that the BOE will include an additional "exploratory scenario" alongside the annual cyclical scenario ("ACS") in 2017. The exploratory scenario is intended to complement the ACS by exploring risks that are not necessarily linked to the financial cycle. The BOE have announced that the 2017 exploratory scenario will assess risks to, and arising from, bank profitability, with a stronger emphasis on banks' choices of strategic management actions and on their ability to plan for long horizons and business model challenges. We judge this increase in emphasis to be of particular relevance to corporate governance considerations, and will closely monitor the results of this scenario.

## LEGAL AND REGULATORY RISK

In common with other UK banks, the Company continues to be subject to various legal and regulatory investigations. Many of these investigations are ongoing, having been initiated by various parties at differing times, and have the potential to remain static for months or years at a time. The following is a concise update on some of those proceedings and the Company's evaluation for any potential liability arising from them:

| ISSUE | 2016 ANNUAL REPORT | UPDATES | RELATED NEWS |
|---|---|---|---|
| Asia-Pacific Hiring Practices Investigation | Page 262 | No material updates since our 2016 Annual Meeting Proxy Paper. | Link |
| Swiss Private Bank & Tax-Related Investigations | Page 259 | The Company has provisioned US$773 million for these matters as at December 31, 2016. | N/A |
| Money Laundering, Terrorist Financing & DPA | Pages 66; 82; 259 | See "Deferred Prosecution Agreement" below | Link |
| Panama Papers | Page 260 | The Company states it is not practicable at this time to predict the timing or possible impact of this matter, which could be significant. | Link |
| Libor, Euribor, Forex & Other Benchmarking Issues | Pages 260; 261 | No material updates since our 2016 Annual Meeting Proxy Paper. | N/A |
| Madoff Court Cases | Page 257 | The Company states that, based on information currently available, possible aggregate damages could be up to or exceed US$800 million, excluding costs and interest. | Link |
| Various Other Legal and Regulatory Issues | Pages 256-262 | No material updates since our 2016 Annual Meeting Proxy Paper. | N/A |

***Deferred Prosecution Agreement ("DPA")***
In February 2017, the DPA Monitor delivered his third annual follow-up review based on various thematic and country reviews that were conducted over the course of 2016. In his report, the Monitor concluded that the Company continued to make progress in enhancing its financial crime compliance controls, including improvements to its global anti-money laundering ("AML") policies and procedures, during 2016.

However, the Monitor also expressed significant concerns about the pace of that progress, instances of potential financial crime that now under review, and on-going systems and control deficiencies that in his view raised questions as to whether the Company is adhering to its obligations under the DPA (2016 annual report, p.82).

As a result, we note that the remuneration committee exercised its discretion to reduce FY2016 annual bonus outcomes under the Global Standards assessments from 75% to 65% for the group chief executive, 86% to 65% for the group finance director and 74% to 65% for the group chief risk officer, based on feedback received from the DPA Monitor, matters arising from risk and compliance incidents, and a number of unsatisfactory internal audits covering AML and sanctions-related issues (2016 annual report, p.161).

***Conclusion***
In our view, although legal and regulatory issues are common to many companies, shareholders should be concerned

with any type of lawsuit or regulatory investigation involving the Company, as such matters could potentially expand in scope and prove to dampen shareholder value. As such, in the event that members of management or the board are implicated in any such proceedings, we may consider recommending that shareholders vote against certain directors on that basis. In previous Proxy Papers we noted, given the range and materiality of outstanding investigations, the long tenure of the executives serving in leadership positions. Given the recent announcement regarding the Company's leadership succession, we do not feel that any action is necessary at this time. However, we suspect that the Company's size and complexity may hamper its ongoing efforts under the terms of the aforementioned U.S. DPA.

## BOARD CHANGES

We note the following board changes, which have occurred since the publication of our 2016 Annual Meeting Proxy Paper:

| DIRECTOR | ROLE | NOTES | RNS |
|---|---|---|---|
| Jackson Tai (appointed September 12, 2016) | NED | None | Link |
| Rachel Lomax (retiring at forthcoming AGM) | SID | None | Link |
| Sam Laidlaw (retiring at forthcoming AGM) | NED | None | Link |
| Mark Tucker (will be appointed September 1, 2017) | NED | Will succeed Douglas Flint as chair on October 1, 2017 | Link |

***Vacant NED Roles***
Following the retirements of Sam Laidlaw and Rachel Lomax at the conclusion of the Company's 2017 AGM, there will be no designated chair of the nomination committee or senior independent director. In this case, we note the board's assertion that an announcement relating to the these positions will be made in due course.

***Chair Succession***
In his statement prefacing the Company's 2016 notice of annual general meeting, executive chair Douglas Flint discloses that the nomination committee has "now turned its attention to formulating a succession plan" for his role, and that it aimed to nominate a non-executive successor during 2017. Subsequently, on March 12, 2017 the Company announced the appointment of Mark Tucker, currently chief executive and president of Hong Kong-listed AIA Group Limited, as group chair designate from September 1, 2017, succeeding Mr. Flint as chair with effect from October 1, 2017.

Mr. Tucker is a former NED of the Court of the Bank of England (from 2009 to 2012) and is currently an NED of the Goldman Sachs group, a position from which he will retire from before joining the Company's board. Commenting on his appointment, the board stated: "We have secured someone who possesses the rare combination of experience demanded by the HSBC Board. He has a long track record of successful leadership of complex financial services businesses in both Asia and the UK. As CEO of two major financial services groups and through his non-executive roles at the Bank of England and Goldman Sachs, he also has extensive experience and understanding of the regulatory frameworks within which international financial services groups such as HSBC now operate".

We note that Mr. Tucker will become the Company's first externally-appointed chair. As such, investors will no doubt hope that he brings a fresh perspective to addressing the various issues the Company continues to face. Among Mr. Tucker's key challenges will be overseeing Stuart Gulliver's succession as CEO; returning the Company to growth after five years of falling revenues; addressing the Company's size and complexity; and dealing with regulators - though it is hoped that most of the heavy lifting has already been done on the regulatory front, freeing Mr. Tucker to think more strategically.

***CEO Succession***
As the incoming chair, Mr. Tucker will assume responsibility for spearheading the drive to identify a successor for Stuart Gulliver, group CEO. The board states that this process is expected to conclude during FY2018 so as to accommodate Mr. Gulliver's expressed desire to step down from his role in this time-frame.

## EXECUTIVE CHAIR

We note that the Company's practice of employing an executive chairman is unusual, and contravenes the widely accepted UK best practice of a non-executive chairman leading the board. Although we would prefer that the board be chaired by a non-executive chairman, we note that the Company has a long tradition of employing an executive chairman, and that the board has appointed a deputy chairman and senior independent director, and has clearly outlined the processes by which it ensures a proper division between management and non-executive oversight.

Further, as noted above, the Company has recently announced the appointment of Mark Tucker as a non-executive director and group chair designate from September 1, 2017. As such, we do not believe this issue warrants shareholder action at this time.

## POTENTIAL OVERCOMMITMENTS

Given the UK Code's recommendation that directors should be able to allocate sufficient time to a company to discharge their responsibilities effectively, we believe shareholders should be mindful of the following directors' commitment levels:

| DIRECTOR | ROLE | ADDITIONAL DIRECTORSHIPS | INDEX | ROLE |
|---|---|---|---|---|
| Paul Walsh | NED | Compass Group plc | FTSE 100 | Chair |
| | | Avanti Communications Group plc | FTSE AIM All-Share | Chair |
| | | FedEx Corporation | S&P 500 | NED |
| | | RM2 International S.A. | FTSE AIM All-Share | NED |
| Irene Lee | NED | Hysan Development Company Limited | Hang Seng HK 35 | Executive Chair |
| | | Hang Seng Bank Ltd. | Hang Seng HK 35 | NED |
| | | Cathay Pacific Airways Ltd. | Hang Seng HK 35 | NED |
| | | CLP Holdings Ltd. | Hang Seng HK 35 | NED |
| | | Noble Group Ltd. | Straits Times Index | NED |

We generally believe that the time commitment required by this number of board memberships may preclude these individuals from dedicating the time necessary to fulfill the responsibilities required of directors.

## BOARD DIVERSITY

We have reviewed the NEDs' current mix of skills and experience as follows:

| DIRECTOR | COUNTRY OF RESIDENCE | CORE INDUSTRY | SENIOR EXEC. | FINANCE/ CAPITAL MARKETS | AUDIT/ ACCTING. | LEGAL | REGULATORY/ PUB. POLICY | INTERNATIONAL MARKETS | STRATEGY/ RISK MGMT. | IT/ TECHNOLOGY |
|---|---|---|---|---|---|---|---|---|---|---|
| Phillip Ameen | U.S.A. | ✔ | ✔ | ✔ | ✔ | | ✔ | ✔ | | |
| Kathleen Casey | U.S.A. | ✔ | | ✔ | | ✔ | ✔ | ✔ | ✔ | |
| Henri de Castries | France | ✔ | ✔ | ✔ | | | ✔ | ✔ | ✔ | |
| Joachim Faber | Germany | ✔ | ✔ | ✔ | ✔ | | | ✔ | ✔ | |
| John Lipsky | U.S.A. | ✔ | | ✔ | | | ✔ | ✔ | ✔ | |
| Laura CHA May Lung | China | | | ✔ | | | ✔ | ✔ | | |
| Heidi Miller | U.S.A. | ✔ | ✔ | ✔ | | | | ✔ | ✔ | |
| David Nish | UK | | ✔ | ✔ | ✔ | | ✔ | | ✔ | |
| Lord Evans of Weardale | UK | | ✔ | | | ✔ | ✔ | | ✔ | |
| Jonathan Symonds | UK | ✔ | ✔ | ✔ | ✔ | | | ✔ | | |
| Jackson P. Tai | U.S.A. | ✔ | ✔ | ✔ | | | | ✔ | | |
| Pauline van der Meer Mohr | Netherlands | | ✔ | | | ✔ | ✔ | ✔ | ✔ | ✔ |
| Paul Walsh | UK | | ✔ | | ✔ | | ✔ | ✔ | ✔ | |
| Irene LEE Yun Lien | Australia | ✔ | ✔ | ✔ | | | ✔ | ✔ | ✔ | |

**Age Range:** 51 to 70 years (average: 62); **Avg. Tenure:** 3 years; **Gender Breakdown (M/F):** 64%/36%

Please note that the above information is for guidance only and is not intended to be exhaustive.

***Gender Diversity***

In line with the recommendations of the Hampton-Alexander Review's FTSE Women Leaders report published in November 2016, we believe that the Company should, as a member of the FTSE 350 Index, aspire to meeting a target of 33% female board representation by the end of 2020.

Further, in line with the recommendations of the UK Code, we believe that the board should disclose a description of its diversity policy (including gender), any measurable objectives that it has set for implementing its policy, and progress on achieving such objectives. We have assessed the Company's reporting in this regard as follows:

| FEATURES | DISCLOSURE |
|---|---|
| Diversity Policy | Yes |
| Specific Gender Diversity Policy | Yes |
| Measurable Gender Objectives | Yes |
| Progress on Measurable Objectives | Yes |

As to the board's composition going forward, we note that five of the nineteen directors are female, representing 26% of the board. In this case, we note the board's diversity policy, which states:

> "Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, including gender. We remain committed to meritocracy in the Boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.
>
> Selection of female candidates to join the Board will be, in part, dependent on the pool of female candidates with the necessary skills, knowledge and experience. The ultimate decision will be based on merit and contribution the chosen candidate will bring to the Board".

Specifically, in relation to the succession planning for the role of group chair, the board states the following:

> "The Committee took responsibility for the implementation of the Board's diversity policy against two objectives: at least 30% of candidates being women and only using external search consultants signed up to the Voluntary Code of Conduct for Executive Search Firms" (2016 annual report, p.144).

***Women in Finance Charter***

On March 22, 2016, Jayne-Anne Gadhia, CEO of Virgin Money, published a review into the representation of women in senior managerial positions in the financial services industry. In response to the review's recommendations, HM Treasury launched the Women in finance charter, to which the Company, along with several other major UK banks and finance companies, is a signatory.

As a signatory to the charter, the Company has pledged to:

- Appoint an executive responsible for gender, diversity and inclusion;
- Set internal targets for gender diversity in senior management;
- Link executive pay to delivery against these targets; and
- Publish gender statistics annually

***Conclusion***

We commend the Company for its reporting in this regard, which we consider to be ahead of many of its FTSE 100 peers. Further, we believe that shareholders can be satisfied with the Company's commitment to the objectives of the Women in finance charter, which we consider to be of particular value in developing a broader pipeline of potential female board candidates going forward.

## RECOMMENDATIONS

We recommend voting against the following nominees up for election this year based on the following:

As aforementioned, nominee **LEE** serves as a director on a total of six public company boards, including one as executive chair (Hysan Development Company Limited).

In addition, nominee **WALSH** serves as a non-executive director on a total of five public company boards (plus shell company Pace Holdings), including two as chair (Compass Group plc and Avanti Communications Group plc).

Mindful of the UK Code's recommendation that directors should be able to allocate sufficient time to a company to discharge their responsibilities effectively, we generally believe that the time commitment required by these combinations of board chairmanships/memberships (including executive duties in the case of Ms. Lee) may preclude these directors from dedicating the time necessary to fulfill the responsibilities required of a director of this Company, itself a FTSE 100 banking business with complex global operations.

We recognise that shareholders may nonetheless choose to support these directors' election given their adequate attendance record during the past fiscal year, the depth of their relevant experience, and the absence of any other apparent conflicts of interest. Nevertheless, we find that the scope of the nominees' external commitments could call into question their availability in case of crisis or unusual demand.

We do not believe there are substantial issues for shareholder concern as to any other nominee.

We recommend that shareholders vote:

**AGAINST:** Lee; Walsh

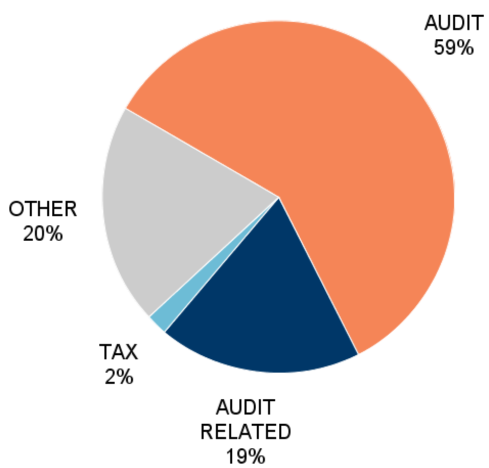
**FOR:** Ameen; Casey; Cha; de Castries; Faber; Flint; Gulliver; Lipsky; Mackay; Miller; Moses; Nish; of Weardale; Symonds; Tai; van der Meer Mohr

The Company discloses the following biographical information for director Jackson P. Tai, a new nominee to the board:
**Jackson P. Tai** was formerly Vice Chairman and Chief Executive of DBS Group and DBS Bank Ltd, having served the group as Chief Financial Officer and then as President and Chief Operating Officer. He previously worked at JP Morgan & Co. Incorporated as an investment banker in New York, Tokyo and San Francisco. Other former appointments include non-executive director of Bank of China Limited, Singapore Airlines, NYSE Euronext, ING Groep N.V., CapitaLand Ltd, SingTel Ltd. and Jones Lang LaSalle Inc. Jackson also served as Vice-Chairman of Islamic Bank of Asia.

# 4.00: APPOINTMENT OF AUDITOR

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Ratification of PricewaterhouseCoopers | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 98.6% | **FOR-** | No material concerns |
| **BINDING/ADVISORY:** | Binding | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |
| **AUDITOR OPINION:** | Unqualified | | |




## AUDITOR FEES

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Audit Fees:** | $65,700,000 | $62,000,000 | $40,600,000 |
| **Audit-Related Fees:** | $20,600,000 | $16,600,000 | $22,600,000 |
| **Tax Fees:** | $2,300,000 | $1,900,000 | $2,300,000 |
| **All Other Fees:** | $22,500,000 | $17,700,000 | $10,400,000 |
| **Total Fees:** | $111,100,000 | $98,200,000 | $75,900,000 |
| **Auditor:** | Pricewaterhouse Coopers | Pricewaterhouse Coopers | KPMG |

| | |
|---|---|
| **Years Serving Company:** | 2 |
| **Restatement in Past 12 Months:** | No |

## GLASS LEWIS ANALYSIS

We believe the balance of fees paid to the auditor is reasonable and that the Company has a track record of disclosing the appropriate information about these services in its filings.

The board is also seeking shareholder approval to set the auditor's fees for the forthcoming fiscal year in Proposal 5. Given that fees were reasonable during the past year, we see no cause for shareholder concern.

We recommend that shareholders vote **FOR** Proposals 4 and 5.

# 6.00: AUTHORISATION OF POLITICAL DONATIONS

FOR

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | General authority to make political donations in the EU | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | N/A | **FOR-** | No material concerns |
| **BINDING/ADVISORY:** | Binding | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General authority to make political donations |
| **Amount Requested** | £200,000 |
| **Expiry** | 2018 AGM |
| **Notes** | None |

### BACKGROUND

This proposal is being submitted pursuant to the Political Parties, Elections and Referendums Act 2000 ("PPER Act"), which prohibits a company from making donations to any EU political organisations or incurring expenditures related to such organisations, unless shareholder approval is given. The PPER Act defines political donations in a way that is open to broad range of interpretation.

As a result, it is possible that activities that form part of the normal relationship between a company and bodies concerned with policy review and law reform, the representation of the business community, or the representation of other communities or special interest groups, may be included within the restrictions of the PPER Act. As such, UK companies will often routinely seek authority to make political donations so as to avoid inadvertently breaching the terms of the PPER Act. This authority is not intended to allow the Company to make political donations in the traditional sense.

## GLASS LEWIS ANALYSIS

The Company states that it does not intend to make any donations or incur any expenditure in respect of any political party in the EU, and that no such donations were made in the prior fiscal year. As such, we believe that the board has put forth this proposal to ensure that the Company does not inadvertently breach the PPER Act and the 2006 Act given the ambiguous nature of what constitutes a donation, an EU political organisation or an EU political expenditure according to the legislation. As such, we see no cause for shareholder concern as to this primarily technical proposal.

We recommend that shareholders vote **FOR** this proposal.

# 7.00: AUTHORITY TO ISSUE SHARES W/ PREEMPTIVE RIGHTS

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | General authority to issue shares on a preemptive basis | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 93.9% | **FOR-** | No material concerns |
| **BINDING/ADVISORY:** | Binding | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General authority to issue shares with preemptive rights |
| **Amount Requested** | • $6,622,305,470 in the form of 13,326,446,901 ordinary shares of $0.50 each (see notes)<br>• £150,000 in the form of 15,000,000 non-cumulative preference shares of £0.01 each;<br>• €150,000 in the form of 15,000,000 non-cumulative preference shares of €0.01 each; and<br>• $150,000 in the form of 15,000,000 non-cumulative preference shares of $0.01 each. |
| **Percentage of Share Capital** | 66.0% |
| **Expiry** | 2018 AGM |
| **Notes** | We note that under part (a) of this proposal, the board's authority to issue shares will be limited to a nominal value of $1,986,691,641, which represents approximately 20% of the Company's issued ordinary share capital. This allotment meets the limits prescribed by the Hong Kong Listings Rules, which do not permit directors to allot shares without preemptive rights that would represent more than 20% of the Company's issued share capital.<br><br>The amount requested in part (b) and (c) relates to the issuance of ordinary shares comprising $3,311,152,735, representing 33% of the Company's issued ordinary share capital, for general purposes and an additional $3,311,152,735, representing a further 33%, issuable only under a fully preemptive rights issue. The board states it has no present intention of exercising this authority. |

## GLASS LEWIS ANALYSIS

Under the proposal, the board's general authority to issue shares will be limited to 66.0% of the Company's issued ordinary share capital, which exceeds the traditional 33% cap set by the Investment Association's Share Capital Management Guidelines. However, the Investment Association treats authorities up to 66% of share capital as routine, provided that the additional amount applies to a fully preemptive rights issue.

In this case, we note the Company's assurance that any shares issued above the traditional one-third cap will indeed be restricted to a fully preemptive rights issue. Further, we believe that this authority will benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities as and when required.

We recommend that shareholders vote **FOR** this proposal.

# 8.00: AUTHORITY TO ISSUE SHARES W/O PREEMPTIVE RIGHTS

FOR

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | General authority to issue shares on a non-preemptive basis | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | 92.7% | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | 75% | |
| **SPECIFIC PURPOSE OR GENERAL AUTHORITY:** | General authority | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General authority to issue shares without preemptive rights |
| **Percentage of Share Capital** | 5.0% |
| **Expiry** | 2018 AGM |
| **Notes** | In line with the Pre-Emption Group's Statement of Principles, no more than 7.5% of the Company's ordinary share capital would be issued on a non-pre-emptive basis over a rolling three year period without consultation with shareholders. |

## GLASS LEWIS ANALYSIS

Under this proposal, the board's authority to issue shares without preemptive rights will be limited to 5.0% of the Company's issued ordinary share capital. This limit meets the 5% cap recommended by the Pre-emption Group's Statement of Principles for Disapplying Pre-emption Rights.

Further, we believe that this authority will benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities as and when required.

We recommend that shareholders vote **FOR** this proposal.

# 9.00: AUTHORITY TO ISSUE SHARES W/O PREEMPTIVE RIGHTS (SPECIFIED CAPITAL INVESTMENT)

FOR

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | General authority to issue shares on a non-preemptive basis | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | N/A | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | 75% | |
| **SPECIFIC PURPOSE OR GENERAL AUTHORITY:** | General authority | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General authority to issue shares without preemptive rights in connection with an acquisition or other specified capital investment |
| **Percentage of Share Capital** | 5.0% |
| **Expiry** | 2018 AGM |
| **Notes** | In line with the Pre-Emption Group's Statement of Principles, no more than 7.5% of the Company's ordinary share capital would be issued on a non-pre-emptive basis over a rolling three year period without consultation with shareholders.<br><br>Further, this authority would only be used for the purposes of financing an acquisition or other specified capital investment. |

## GLASS LEWIS ANALYSIS

Under this proposal, the board's authority to issue shares without preemptive rights will be increased to up to a total of 10% of the Company's issued ordinary share capital, which exceeds the traditional 5% cap recommended by the Pre-emption Group's Statement of Principles for Disapplying Pre-emption Rights. However, the Pre-Emption Group treats authorities up to 10% of share capital as routine, provided that the additional amount will be restricted to use in connection with an acquisition or specified capital investment

In this case, we note the Company's assurance that any shares issued above the traditional 5% cap will indeed will be restricted to use in connection with an acquisition or specified capital investment. Further, we believe that this authority will benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities as and when required.

We recommend that shareholders vote **FOR** this proposal.

# 10.00: AUTHORITY TO ISSUE REPURCHASED SHARES

**FOR**

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | Authority to issue repurchased shares | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | 96.2% | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | |

## PROPOSAL DETAILS

This proposal seeks shareholder approval to extend the Company's authorisation to issue shares, as detailed in Proposal 7, to include shares that are repurchased under the authority sought in Proposal 11, representing 10% of the Company's issued ordinary share capital. However, the overall number of shares available for issuance would remain limited to a maximum nominal value of $6,622,305,470, representing approximately 66% of the Company's issued share capital.

Subject to shareholder approval, the board would be authorised to issue the repurchased shares at its discretion, provided that the proposed general mandates to issue and to repurchase shares are approved. If approved, this authority will expire on June 30, 2018 or, if earlier, at the conclusion of the 2017 AGM.

We note that as at December 31, 2016, 325,273,407 shares were held in treasury (2015: nil).

## GLASS LEWIS ANALYSIS

We generally support granting the board the authority to repurchase shares and issue the repurchased shares to give it the flexibility to reissue shares that today already trade in the market in the event the Company needs additional capital. In addition, we note that the overall number of issuable shares shall not exceed 66% of the Company's issued share capital (as per Proposal 7), and that this authority will expire at the Company's next AGM. As such, we find the terms of the proposal to be reasonable.

We recommend that shareholders vote **FOR** this proposal.

# 11.00: AUTHORITY TO REPURCHASE SHARES

FOR

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | General authority to repurchase shares | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | 99% | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | 75% | |
| **SPECIFIC PURPOSE OR GENERAL AUTHORITY:** | General authority | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General Authority to make market repurchases of shares |
| **Percentage of Share Capital** | 10.00% |
| **Maximum Price** | The higher of:<br><br>(a) 105% of the average of the middle-market quotations for an ordinary share according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the purchase contract is made; or<br><br>(b) 105% of the average of the closing prices of the ordinary shares on The Stock Exchange of Hong Kong Limited for the five dealing days immediately preceding the day on which the ordinary share is contracted to be purchased, in each case converted (where relevant) into the relevant currency in which the purchase is effected calculated by reference to the spot rate of exchange for the purchase of such currency with the currency in which the quotation and/or price is given as quoted by HSBC Bank plc in the London Foreign Exchange Market at or about 11.00am (London time) on the business day prior to the date on which the ordinary share is contracted to be purchased, in each case such rate to be the rate as conclusively certified by an officer of HSBC Bank plc. |
| **Minimum Price** | Nominal value |
| **Expiry** | 2018 AGM |
| **Notes** | On December 19, 2016, the Company completed a US$2.5 billion repurchase programme, funded from a portion of the proceeds of the sale of the Company's Brazilian operations in July 2016. In his review prefacing the 2016 annual report, CEO Stuart Gulliver states that the Company is proposing a further repurchase programme of up to US$1 billion, which is expected to commence in the first half of FY2017.<br><br>The board states that it will continue "to contemplate further share buy-backs as circumstances permit" (2016 annual report, p.8). |

## GLASS LEWIS ANALYSIS

As a general rule, we believe that buyback programs and associated share cancellation programs are in shareholders' best interests, so long as the Company is left with a sufficiently strong balance sheet in light of its capital requirements. Typically, a repurchase is used to return surplus capital to shareholders, increase earnings per share, or provide shares for equity compensation plans.

We believe that the terms under which the Company is considering a repurchase of its shares are reasonable.

We recommend that shareholders vote **FOR** this proposal.

# 12.00: AUTHORITY TO ISSUE CONTINGENT CONVERTIBLE SECURITIES W/ PREEMPTIVE RIGHTS

**FOR**

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | Authority to issue Contingent Convertible Securities with Preemptive Rights | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | 96.4% | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | |
| **SPECIFIC PURPOSE OR GENERAL AUTHORITY:** | General authority | |

## PROPOSAL DETAILS

| | |
|---|---|
| **Authority Type** | General authority to allot equity securities in relation to the issue of Contingent Convertible Securities ("CSSs") |
| **Percentage of Share Capital** | 20% |
| **Expiry** | 2018 AGM |
| **Notes** | Proposal 13 seeks shareholder approval to disapply preemption rights from shares allotted pursuant to the issue of CSSs. |

### BACKGROUND AND RATIONALE

Contingent convertible securities, which qualify as additional tier 1 capital, are debt instruments that automatically convert to equity when certain predetermined conditions are met. Such instruments have their roots in the financial crisis when several banks were bailed out by governments, and are designed to anticipate potentially long and complex restructurings when a company runs into trouble and unpayable debts are converted to equity. Unlike other kinds of convertible bonds, CSSs do not have to be included in a company's diluted earnings per share until the bonds are eligible for conversion, and are generally seen by regulators as a helpful capital buffer in times of stress, making bailouts less likely in future.

Further, and in order to continue to operate as a bank, the Company must meet minimum regulatory capital requirements in the countries in which it operates. These include compliance with European Union legislation under which banks and bank holding companies are required to maintain Tier 1 Capital of at least 6% of their risk weighted assets, of which 1.5% of risk weighted assets may be in the form of additional tier 1 capital. As such, this authority is being sought primarily to allow the Company to comply with relevant prudential regulatory capital requirements.

## GLASS LEWIS ANALYSIS

Under this proposal, the board's authority to issue shares would extend beyond the 66% of ordinary capital routinely sought by UK companies, to include shares issuable on conversion of CCSs. As such, this authority would provide the board with an extremely high level of control over the Company's issued share capital, including issuances on a non-preemptive basis (Proposal 13).

However, we note that the issuance of CCSs will not cause dilution to existing ordinary shareholders unless a trigger event causes them to be converetd into equity. Further, we note that the Company has planned actions to forestall such an event and, should a trigger event occur, shareholders would be provided the opportunity to participate in the issuance of new shares. As such, and given that this authority is being sought to grant the Company flexibility in complying with prudential capital requirements, we believe that shareholders can reasonably support this proposal.

We recommend that shareholders vote **FOR** Proposals 12 and 13.

# 13.00: AUTHORITY TO ISSUE CONTINGENT CONVERTIBLE SECURITIES W/O PREEMPTIVE RIGHTS

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Authority to issue Contingent Convertible Securities without Preemptive Rights | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 86.9% | **FOR-** | No material concerns |
| **BINDING/ADVISORY:** | Binding | | |
| **REQUIRED TO APPROVE:** | 75% | | |
| **SPECIFIC PURPOSE OR GENERAL AUTHORITY:** | General authority | | |

Please refer to the analysis in Proposal 12.

# 14.00: AUTHORITY TO SET GENERAL MEETING NOTICE PERIOD AT 14 DAYS

FOR

| | | |
|---|---|---|
| **PROPOSAL REQUEST:** | Authority to hold general meetings on 14 days notice | **RECOMMENDATIONS & CONCERNS:** |
| **PRIOR YEAR VOTE RESULT (FOR):** | 88.4% | **FOR-** No material concerns |
| **BINDING/ADVISORY:** | Binding | |
| **REQUIRED TO APPROVE:** | 75% | |

## PROPOSAL DETAILS

If approved, the board will be authorised to set the notice period for a general meeting, also commonly known as a special or extraordinary meeting, at 14 days.

Historically, the general meeting notice period in the UK has been set at 21 days. This reduction is allowed under both the Companies Act 2006 (the "Act") and also the EU Shareholder Rights Directive, which came into effect in August 2009. If approved, the authority will expire at the conclusion of the Company's next annual general meeting.

We note that the notice period for an annual general meeting will remain unchanged.

## GLASS LEWIS ANALYSIS

Glass Lewis generally supports authorities intended to provide companies with reasonable flexibility. In this case, we note that a shortened general meeting notice period is permitted by the UK Corporate Governance Code and the EU Shareholders Rights Directive, provided that a company conforms to specific electronic voting and communication requirements, as is the case here.

As such, and in the absence of any evidence that this authority might be used inappropriately, we believe that shareholders can reasonably support this proposal.

We recommend that shareholders vote **FOR** this proposal.

# VOTE RESULTS FROM LAST ANNUAL MEETING APRIL 22, 2016

## RESULTS

| NO. | PROPOSAL | FOR/ DISCRETIONARY | AGAINST | ABSTAIN/WITHHELD* | GLC REC | FOR - EXCL. ABSTAINS |
|---|---|---|---|---|---|---|
| 1.0 | Accounts and Reports | 98.58% | 1.27% | 0.14% | For | 98.72% |
| 2.0 | Remuneration Report (Advisory) | 89.96% | 9.46% | 0.59% | For | 90.49% |
| 3.0 | Remuneration Policy (Binding) | 95.68% | 3.94% | 0.38% | For | 96.05% |
| 4.1 | Elect Henri de Castries | 97.30% | 1.78% | 0.92% | For | 98.21% |
| 4.2 | Elect Irene LEE Yun Lien | 90.71% | 8.02% | 1.27% | Against | 91.87% |
| 4.3 | Elect Pauline van der Meer Mohr | 99.80% | 0.11% | 0.10% | For | 99.89% |
| 4.4 | Elect Paul S. Walsh | 89.25% | 8.62% | 2.13% | Against | 91.19% |
| 4.5 | Elect Phillip Ameen | 99.63% | 0.27% | 0.10% | For | 99.73% |
| 4.6 | Elect Kathleen Casey | 99.77% | 0.14% | 0.09% | For | 99.86% |
| 4.7 | Elect Laura CHA May Lung | 99.25% | 0.66% | 0.09% | For | 99.34% |
| 4.8 | Elect Lord Evans of Weardale | 99.76% | 0.15% | 0.10% | For | 99.85% |
| 4.9 | Elect Joachim Faber | 99.71% | 0.19% | 0.10% | For | 99.81% |
| 4.10 | Elect Douglas J. Flint | 96.88% | 3.03% | 0.09% | For | 96.97% |
| 4.11 | Elect Stuart T. Gulliver | 99.63% | 0.28% | 0.09% | For | 99.72% |
| 4.12 | Elect Sam H. Laidlaw | 99.23% | 0.67% | 0.10% | For | 99.33% |
| 4.13 | Elect John P. Lipsky | 99.75% | 0.16% | 0.10% | For | 99.84% |
| 4.14 | Elect Rachel Lomax | 99.60% | 0.30% | 0.09% | For | 99.70% |
| 4.15 | Elect Iain J. Mackay | 99.35% | 0.56% | 0.09% | For | 99.44% |
| 4.16 | Elect Heidi G. Miller | 99.64% | 0.26% | 0.09% | For | 99.74% |
| 4.17 | Elect Marc Moses | 99.27% | 0.63% | 0.10% | For | 99.37% |
| 4.18 | Elect Jonathan Symonds | 98.51% | 1.39% | 0.10% | For | 98.61% |
| 5.0 | Appointment of Auditor | 98.65% | 0.28% | 1.07% | For | 99.72% |
| 6.0 | Authority to Set Auditor's Fees | 99.85% | 0.11% | 0.04% | For | 99.89% |
| 7.0 | Authority to Issue Shares w/ Preemptive Rights | 93.88% | 6.07% | 0.05% | For | 93.93% |
| 8.0 | Authority to Issue Shares w/o Preemptive Rights | 92.75% | 6.70% | 0.56% | For | 93.26% |
| 9.0 | Authority to Issue Repurchased Shares | 96.22% | 3.73% | 0.05% | For | 96.27% |
| 10.0 | Authority to Repurchase Shares | 98.95% | 0.98% | 0.07% | For | 99.02% |
| 11.0 | Authority to Issue Contingent Convertible Securities w/ Preemptive Rights | 96.38% | 3.41% | 0.20% | For | 96.58% |
| 12.0 | Authority to Issue Contingent Convertible Securities w/o Preemptive Rights | 86.94% | 12.84% | 0.21% | For | 87.13% |
| 13.0 | Scrip Dividend | 99.60% | 0.35% | 0.06% | For | 99.65% |
| 14.0 | Authority to Set General Meeting Notice Period at 14 Days | 88.37% | 11.57% | 0.06% | Against | 88.42% |

**In addition to being able to vote "for" or "against" individual resolutions, shareholders of UK companies have a "withhold" or "abstain" option that they may use to indicate their reservations with a resolution without lodging a vote against it. However, a withhold vote, also known as an active abstention, is not a vote in law and is not counted by companies in the final tally of votes.*

# APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

## NOTE

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Revision March 29, 2017: We have updated our analysis of Proposal 2 to remove the statement that no awards have been granted under the PBT element of the annual bonus scheme in recent years. This change has been made in light of the fact that such an award was indeed made in 2015. This change has had no material impact on our analysis, and our voting recommendation remains unchanged.

## DISCLOSURES



This report is intended to provide research, data and analysis of proxy voting issues and, therefore, should not be relied upon as investment advice. Glass Lewis analyzes the issues presented for shareholder vote and makes recommendations as to how Glass Lewis believes institutional shareholders should vote their proxies, without commenting on the investment merits of the securities issued by the subject companies. Therefore, none of Glass Lewis' proxy vote recommendations should be construed as a recommendation to invest in, purchase, or sell any securities or other property. Moreover, Glass Lewis' proxy vote recommendations must be construed solely as statements of opinion, and not as statements of fact, and may be revised based on additional information or any other reason at any time.

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## LEAD ANALYSTS

| **Governance:** | **Remuneration:** |
|---|---|
| Natasha O'Connor | Bernadette O'Donoghue |