PIRC

HSBC HOLDINGS PLC

UK Governance Service

MEETING DATE	Fri, 22 Apr 2016 11:00 am	TYPE	AGM	ISSUE DATE	Wed, 06 Apr 2016
MEETING LOCATION	Queen Elizabeth II Conference Centre Broad Sanctuary, London SW1P 3EE				
CURRENT INDICES	FTSE 100, FTSE EuroFirst				
SECTOR	Banks				

COMPANY OVERVIEW

HSBC Holdings plc (HSBC) is a banking and financial services organization. The Company provides financial services to customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

MEETING SPECIFIC INFORMATION

Quorum requirements and voting majority

Resolutions under extraordinary business have special voting majority requirements. Resolutions 8, 10, 12 and 14 require three quarters of the votes validly cast in order to be approved.

	PROPOSALS	ADVICE
1	**Receive the Annual Report** The Strategic Review is considered adequate. There are adequate environmental and employment policies in place. Quantified environmental data has been published. It is noted that the Company has not provided shareholders with an opportunity to approve dividends paid during the year. The vote by shareholders on the payment of a dividend on unqualified accounts, discharges the duties of the directors in tandem with the legal responsibilities of the auditors, and reaffirms the necessity of reliably audited accounts for financial governance to function properly. Given the lack of opportunity to approve the dividend, shareholders are recommended to oppose.	**Oppose**
2	**Approve the Remuneration Report** There are important concerns over the level of variable pay of the CEO which exceeds 200% of salary and which comes in addition of the use of Fixed Pay Allowance (FPA). The use of an FPA to increase the overall pay of Executive Directors is not supported as it circumvents the spirit of the CRD IV regulations. The CEO salary is above the upper quartile when compared with salaries of other CEOs in the comparator group. The benefits paid to the CEO were worth 50% of salary which is considered excessive and inappropriate for accommodation and car benefits. In addition, the ratio between the CEO pay and the average employee pay is not appropriate at 110:1. Rating: BE.	**Oppose**

3	**Approve Remuneration Policy** Improvements are being implemented to the proposed remuneration policy (see supporting information below). The decrease in the maximum payment in lieu of pension and in the maximum potential variable award (from 562% of salary to 535%) and the creation of a maximum limit for the Fixed Pay Allowance (FPA) are welcomed. However, these changes are still considered insufficient to align with best practice. Given the CEO salary level, pension payments should be at 15% of salary or below. The use of a FPA is not acceptable as it circumvents the spirit of the CRD IV regulations, which capped variable pay at 200% of fixed pay. Also, maximum potential awards under all incentive plans (excluding FPA) can represent up to 535% of salary which is highly excessive. Under the new Group Performance Share Plan (PSP), the three-year performance period is still not considered sufficiently long-term and the performance metrics are not operating in an interdependent fashion. Payments of dividend equivalents on vested share is not in line with best practice. Finally there are important concerns over the Company's recruitment policy. In particular, the Committee has the discretion under the proposed policy to award a Guaranteed Bonus to Executive Directors on recruitment. Such recruitment incentives cannot be supported. Rating: ADD.		**Oppose**
4 (a)	**Elect Henri de Castries** Newly appointed independent Non-Executive Director. However, there are concerns over his aggregate time commitments.		**Abstain**
4 (b)	**Elect Irene Lee** Newly appointed independent Non-Executive Director.		**For**
4 (c)	**Elect Pauline van der Meer Mohr** Newly appointed independent Non-Executive Director.		**For**
4 (d)	**Elect Paul Walsh** Newly appointed independent Non-Executive Director.		**For**
4 (e)	**Re-elect Phillip Ameen** Independent Non-Executive Director.		**For**
4 (f)	**Re-elect Kathleen Casey** Independent Non-Executive Director.		**For**
4 (g)	**Re-elect Laura Cha** Independent Non-Executive Director.		**For**
4 (h)	**Re-elect Lord Evans of Weardale** Independent Non-Executive Director.		**For**
4 (i)	**Re-elect Joachim Faber** Independent Non-Executive Director.		**For**
4 (j)	**Re-elect Douglas Flint** Group Executive Chairman. 12 months rolling contract. While there is a clear statement of separation of duties between the CEO and the Chairman, a chairman with executive functions is in breach of corporate governance best practice.		**Oppose**
4 (k)	**Re-elect Stuart Gulliver** Chief Executive Officer. 12 months rolling contract.		**For**
4 (l)	**Re-elect Sam Laidlaw** Independent Non-Executive Director.		**For**
4 (m)	**Re-elect John Lipsky** Independent Non-Executive Director.		**For**
4 (n)	**Re-elect Rachel Lomax** Senior Independent Director. Considered independent.		**For**
4 (o)	**Re-elect Iain Mackay** Group Finance Director. 12 months rolling contract.		**For**
4 (p)	**Re-elect Heidi Miller** Independent Non-Executive Director.		**For**
4 (q)	**Re-elect Marc Moses** Group Chief Risk Officer. 12 months rolling contract.		**For**

4 (r) Re-elect Jonathan Symonds **Oppose**

Non-Executive Director. Not considered independent as a director of HSBC Holdings as he is also the Chairman of HSBC Bank plc, the Company's ring-fenced UK subsidiary. It is also noted that he has two important prior connections with the Executive Chairman, Douglas Flint. They were both previously partners at KPMG and both were sitting on the the UK Accounting Standards Board at the same time. Based on these significant concerns, an oppose vote is recommended.

5 Appoint the Auditors **Abstain**

PricewaterhouseCoopers LLP proposed for its first re-election. Non-audit fees represented 30% of audit fees during the year under review. This level of non-audit fees raises a concern about the independence of the statutory auditor. On this basis, an abstain vote is recommended.

6 Allow the Board to Determine the Auditor's Remuneration **For**

Standard proposal

7 Share Issuance **Oppose**

Authority is limited to two-thirds of the Company's issued share capital. However, that authority is limited as follows:

(a) up to 20% of the Company's issued ordinary share capital may be used for general allotments, although this authority is further limited so that allotments for cash which are not made to shareholders on a pro rata basis cannot exceed 10% of the Company's issued share capital. This has been decided to reflect both the requirements of the guidelines issued by the UK's Investment Association and the requirements of the Hong Kong Listing Rules;

(b) up to one third of the Company's issued share capital with pre-emption rights;

(c) up to two-thirds of the Company's issued ordinary share capital in connection with a rights issue only. Any allotments or grants under paragraphs (a) or (b) will reduce the level of this two-thirds authority;

(d) issue of sterling (up to £150,000), US dollar (up to USD150,000) and euro (up to EUR150,000) preference shares without having first to obtain the consent of shareholders in general meeting.

Issuance of share of up to 10% of the issued share capital for cash is considered excessive. The use of this authority to issue preference shares is also not supported. An oppose vote is therefore recommended.

8* Issue Shares for Cash **Oppose**

This seeks a waiver from statutory pre-emption rights under the UK Companies Act 2006 in respect of allotments made under the authorities sought in Resolution 7. The authority is limited to 10% of the issued share capital and expires at the next AGM. The proposed limit is considered excessive. An oppose vote is recommended.

9 Issue any repurchased Shares **Oppose**

Authority proposed to allot shares or grant rights to subscribe for, or convert any security into, shares in the Company pursuant to paragraph (a) of Resolution 7 be extended by the addition of such number of ordinary shares of US$0.50 each repurchased by the Company under the authority granted pursuant to Resolution 10, to the extent that such extension would not result in any increase in the authority to allot shares or grant rights to subscribe for or convert securities into shares pursuant to paragraphs (b) and (c) of Resolution 7. Share repurchase authority under resolution 10 is limited to 10% of the Company's issued share capital. This will allow the Company to issue an additional 10% of the issued share capital for cash, which is considered excessive. An oppose vote is recommended.

10* Authorise Share Repurchase **Oppose**

Authority limited to 10% of the Company's issued share capital and expires at the next AGM. This resolution will not be supported unless the Board has set forth a clear, cogent and compelling case demonstrating how the authority would benefit long-term shareholders. As no clear justification was provided by the Board, an oppose vote is recommended.

11 **Allot equity securities in relation to Contingent Convertible Securities (CCSs)** **Oppose**

Authority to allot shares and grant rights to subscribe for or to convert any security into ordinary shares in the Company up to an aggregate nominal amount of US$1,970,797,386, representing approximately 20% of the Company's issued ordinary share capital as at 4 March 2016, such authority to be exercised in connection with the issue of CCSs. CCSs are debt securities which convert into ordinary shares in certain prescribed circumstances (see supporting information). They benefit from a specific regulatory capital treatment under European Union legislation. This authority is in addition to resolution 12 and will expire at next AGM. The Company explains that this resolution is a recurring resolution at its AGM and will be used to comply or maintain compliance with regulatory capital requirements or targets applicable to the Group. The terms of HSBC's existing CCSs have received regulatory approval from the Prudential Regulation Authority ("PRA"). The dilution involved for those shareholders not able to subscribe may significantly decrease their interest in the Bank. Disapplying pre-emption rights may result in excessive dilution.

The use of CCSs are not considered appropriate as they put investors at significant risk of dilution in the event that conversion occurs. CCSs are relatively new instruments and there are concerns that CCSs may create a situation which whilst converting some debt to equity actually disincentivises equity investors from putting more new funds in to banks via rights issues, due to the dilutive effect of the conversion taking away much, or some, of the premium that would ordinarily accrue to shareholders. Recent events at Deutsche Bank has led to others voicing their concerns about the destabilising effect of CCSs on both the CCS price and the share price. Based on these concerns, an oppose vote is recommended.

12* **Disapply pre-emption rights in relation to the issue of Contingent Convertible Securities (CCSs)** **Oppose**

This resolution will give the Directors authority to allot CCSs, or shares issued upon conversion or exchange of CCSs, without the need to first offer them to existing shareholders. This will allow the Directors greater flexibility to manage the Company's capital in the most efficient and economical way for the benefit of shareholders. If passed, Resolution 12 will authorise the Directors to allot shares and grant rights to subscribe for or to convert any security into shares in the Company on a non-pre-emptive basis up to an aggregate nominal amount of US$1,970,797,386, representing approximately 20% of the Company's issued share capital. In line with the voting recommendation on resolution 11, an oppose vote is recommended.

13 **Renewal of Scrip Dividend authority** **For**

Shareholder approval is being sought to renew the authority for the Directors to offer a scrip dividend alternative for a further three-year period, expiring on the conclusion of the Annual General Meeting in 2019.

As each shareholder is given the elective choice of either accepting or rejecting the proposed scrip dividend, a vote in favour of the resolution is recommended.

14* **Meeting notification-related proposal** **For**

All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. However, as the proposed change is permissible by the Companies Act, support is recommended.

**** = Special resolution***

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Approve Remuneration Policy

Summary of changes in policy are proposed during the year under review:

- Cash in lieu of pension has been reduced from 50% to 30% of base salary for executives. The proposed limit is still considered to be excessive.
- A limit of 150% of base salary has been set for the maximum Fixed Pay Allowance to Executive Directors. The creation of a limit is commended but the use of such fixed allowance is still not considered appropriate.
- The Maximum opportunity under the annual bonus has increased from 181% of salary to 215% of salary while the opportunity under the Long-Term Share plan reduced from 381% to 320% of salary. Overall maximum opportunity has been reduced from 562% of base salary to 535% of base salary.

- Payments under the Performance Share Plan are now based on achievement of performance targets over a three year period instead of an annual scorecard. Vesting of awards will be in equal in equal instalments over five years following performance period.

Proposal 4 (j) - Re-elect Douglas Flint

PIRC notes that Mr Flint was Finance Director when there were significant issues regarding regulatory breaches for which HSBC received substantial fines. Most recently, Mr. Flint was in an executive role when HSBC's Swiss private banking arm was undertaking significant tax evasion and aggressive tax avoidance. PIRC would expect such issues to require intense scrutiny by the board of the position of the finance director and the auditors. Given this it is considered that Mr. Flint has failed in his responsibilities and his position is untenable.

Proposal 4 (l) - Re-elect Sam Laidlaw

He is the new Chairman of the remuneration committee and was a member of that committee before that. It is noted that the resolution to approve the remuneration report and the election of members of the remuneration committee received a significant proportion of oppose votes at the last AGM. It is noted that improvements were made to the policy during the year under review, which partly mitigate our concerns and shows that some shareholders' concerns were addressed. Upon engagement, the Company confirmed that the Committee met numerous times with different shareholders to discuss the remuneration. The proposed remuneration changes are still not considered sufficient but these concerns, over the new remuneration structure, have been expressed in the two remuneration resolutions.

Proposal 8 - Issue Shares for Cash

The Company has stated that this authority will only be used in respect of more than 5% of the issued share capital to fund one or more acquisitions or specified capital investments, in line with the Pre-Emption Group Guidelines. This recommendation is not supported by PIRC.

Proposal 11 - Allot equity securities in relation to Contingent Convertible Securities (CCSs)

CCSs are debt securities that benefit from a particular regulatory capital treatment under European Union legislation. CCSs will be converted or exchanged into ordinary shares if a defined trigger event occurs. The terms of HSBC's existing CCSs have received regulatory approval from the Prudential Regulation Authority ("PRA"). As a banking group, HSBC 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 per cent of their risk weighted assets. The CCSs would qualify as Additional Tier 1 Capital on the basis that on the occurrence of a defined trigger event they would be mandatorily converted into or exchanged for ordinary shares of HSBC. The conversion or exchange would have the effect of increasing the issuer's Common Equity Tier 1 capital ratio.
Conversion trigger: Should HSBC's Common Equity Tier 1 capital ratio fall below the defined capital trigger (the "Trigger Event"), the CCSs would be converted into or exchanged for new ordinary shares in HSBC on their prescribed terms. The defined capital trigger will be specified in the terms of the CCSs when they are issued. HSBC's existing CCSs contain a Common Equity Tier 1 capital trigger of 7.0 per cent on a CRD IV end point basis which has been approved by the PRA. It is HSBC's current expectation that future CCSs issued by the Group would contain the same capital trigger subject to approval by the PRA.
Issue price and conversion price: CCSs will be issued at or close to their face value in a manner typical for debt securities. The terms and conditions for the CCSs will specify a fixed conversion price or a mechanism for setting a conversion price which will determine how many ordinary shares are issued on conversion or exchange of the CCSs if a Trigger Event occurred. In respect of any CCSs issued (or shares issued on conversion or exchange of CCSs) under the authorities in Resolutions 11 and 12, the conversion price on issue of the CCSs will not be less than £2.70, being the lowest trading price (recorded on 9 March 2009) of HSBC's ordinary shares over the last 10 years. This represents a discount of approximately 40 per cent to the closing price on 4 March 2016.
Rationale from the Company: Issuing CCSs gives HSBC greater flexibility to manage its capital in the most efficient and economical way. It is expected that Additional Tier 1 Capital will be a cheaper form of capital than issuing and maintaining Common Equity Tier 1 capital (e.g. ordinary shares) to satisfy the Tier 1 Capital requirement and (provided the Trigger Event does not occur) nondilutive to existing shareholders. This should improve the returns available to existing shareholders whilst maintaining HSBC's capital strength, in line with prevailing banking regulations. Given the administrative burden both in cost and time for a company the size of HSBC to obtain these types of authorities, the Directors do not consider it practical or in the interests of shareholders to seek a new authority each time an issue of CCSs is proposed.

Proposal 14 - Meeting notification-related proposal
The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

COMPANY ENGAGEMENT

A draft copy of the report for this meeting was provided to the Company for comments.

Resolution 2:
The Company explains that the CEO salary, based on its own market data, is just above market median of its comparator group (Australia and New Zealand Banking Group Limited, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, JPMorgan Chase & Co, Santander, Standard Chartered and UBS).
The Company also provided clarification with regard to the CEO benefits:
- the accommodation is Bank owned and the Group CEO resides in the property when in HK and utilises the property for business entertainment. The Group CEO is in HK for less than half the year.
- Value of the benefit is not based on the running cost or actual time spent in the property, but on specific rules based on the "market value" of the property (estimated gross rental/lease value by an external company). Because the property is used for business entertainment, the Company is allowed to apply a 30% reduction to this value. The market value of the property has increased in 2015 so taxable benefit value has also increased.
- Car valuation (HK): This year, the car in HK is eligible for use as a pool car. The benefit is only based upon personal use, reflective of Group CEO's time in HK.
- Car valuation (UK): The UK car benefit provided to Chairman and Group CEO has not changed in 2015. As it is not a pool car for tax purposes, the benefit value is based on the current cost of a new car, full time use and emission rates, and includes driver wages, fuel and all associated costs. The taxable benefit valuation is higher than the car's actual value as the car was registered in 2011. In 2016 it will change to a pool car approach for the Chairman and Group CEO, so the benefit value should decrease.

Finally, the Company further explained the payments made to past director, Mr Flockhart, which no longer raise significant concern.

Resolution 3:
The Company stated that the new long term incentive awards will have a further four-year vesting period after the initial three-year performance period. This in effect means the executives will realise the value of their awards over a seven-year period with a weighted average vesting period of five years. It also considers that the pension limit of 30% of salary proposed under the new policy is below its UK Banking peers. Finally, with regard to the Guaranteed bonus, the Company explained that it would be awarded only in exceptional circumstances and it is not necessary that a new executive director will automatically receive such an award.

Resolution 4(r):
The Company explained that Jonathan Symonds was a partner at KPMG 1992-1997 and Douglas Flint was a partner over the 1988-1995 period. HSBC considers the length of time since either director were both employed at KPMG, 21 years, to be substantial and as such not significant in determining Jonathan as a connected person. Jonathan and Douglas' tenures on the Accounting Standards Board overlapped by approximately two years, 2002-2004. This was ten years prior to Jonathan's appointment to HSBC Holdings Board in 2014. HSBC does not consider this material to Jonathan's independence as a non-executive director at HSBC Holdings plc.

PREVIOUS AGM'S RECOMMENDATIONS & VOTING RESULTS - Fri, 24 Apr 2015

RESOLUTION	PROPOSAL	PIRC VOTE	% OPPOSE	% ABSTAIN
1	Receive the Annual Report	Oppose	1.2	0.43
2	**Approve the Remuneration Report**	**Oppose**	**22.02**	**7.14**
3(a)	Elect Phillip Ameen	For	0.09	0.34
3(b)	Elect Heidi Miller	For	0.25	0.34
3(c)	Re-elect Kathleen Casey	For	0.09	0.34
3(d)	Re-elect Safra Catz	For	0.12	0.34
3(e)	Re-elect Laura Cha	Abstain	0.89	1.17
3(f)	Re-elect Lord Evans of Weardale	For	0.12	0.34
3(g)	Re-elect Joachim Faber	For	0.15	0.34
3(h)	Re-elect Rona Fairhead	Oppose	3.4	0.35
3(i)	Re-elect Douglas Flint	Oppose	4.09	0.39
3(j)	Re-elect Stuart Gulliver	For	0.31	0.33
3(k)	**Re-elect Sam Laidlaw**	**For**	**12.1**	**0.34**
3(l)	**Re-elect John Lipsky**	**For**	**11.92**	**0.34**
3(m)	Re-elect Rachel Lomax	For	0.1	0.34
3(n)	Re-elect Iain Mackay	For	0.33	0.34
3(o)	Re-elect Marc Moses	For	0.26	0.34
3(p)	**Re-elect Sir Simon Robertson**	**Abstain**	**12.74**	**1.03**
3(q)	Re-elect Jonathan Symonds	For	0.17	0.34
4	Appoint the auditors: PricewaterhouseCoopers LLP	For	0.27	0.32
5	Allow the board to determine the auditors remuneration	For	0.15	0.32
6	Issue shares with pre-emption rights	For	7.51	0.4
7	Issue shares for cash	For	7.65	0.46
8	To authorise the Directors to allot any repurchased shares	For	3.25	0.37
9	Authorise Share Repurchase	Abstain	0.5	1.08
10	Issue shares in relation to the issue of Contingent Convertible Securities	For	3.18	0.48
11	Issue shares for cash in relation to the issue of Contingent Convertible Securities	For	9.26	0.48
12	Amend all employee option/share scheme	For	0.97	0.35
13	**Meeting notification related proposal**	**For**	**11.38**	**0.33**

Note: % Oppose is the combined vote results for oppose/withhold.

CORPORATE GOVERNANCE HIGHLIGHTS

BOARD AND OTHER GOVERNANCE INFORMATION	AS OF APR 2016
Size of Board	18
Average Age of Directors	60
Average Tenure of Directors	3.89
Number of Independent Directors	13
Board Independence Level	72.22%
Directors’ Aggregated Voting Rights	0.02%
Annual Election of Directors	Yes
Separate Chairman and CEO	Yes
The Senior Independent Director is Independent	Yes
No Executive is On the Remuneration Committee	Yes
No Executive is On the Nomination Committee	Yes
No Executive is On the Audit Committee	Yes
The Company Maintains a Corporate Jet	n/a
Number of Resolutions With a Significant Proportion of Votes Against (10%)	5

BOARD AND COMMITTEE COMPOSITION (post-Meeting)

BOARD CHANGES

Safra Catz resigned on 31 December 2015. Rona Fairhead and Sir Simon Robertson, Deputy Chairman, will retire from the Board at the conclusion of the AGM. Irene Lee and Pauline Van Der Meer Mohr were appointed to the Board on 1 July and 1 September 2015, respectively. Paul Walsh and Henri de Castries were appointed to the Board as independent Non-Executive Directors on 1 January and 1 March 2016, respectively.

DIRECTOR	GENDER	INDEPENDENT BY PIRC	INDEPENDENT BY COMPANY	BOARD	AC	RC	NC	TENURE
Douglas Flint	M	**No**	No	ExCh	-	-	-	**20**
Stuart Gulliver	M	**No**	No	CEO	-	-	-	7
Rachel Lomax	F	Yes	Yes	SID	M	-	M	7
Iain Mackay	M	**No**	No	Exec	-	-	-	5
Marc Moses	M	**No**	No	Exec	-	-	-	2
Phillip Ameen	M	Yes	Yes	NED	M	-	-	1
Kathleen Casey	F	Yes	Yes	NED	M	-	-	2
Laura May Lung Cha	F	Yes	Yes	NED	-	-	M	5
Henri de Castries	M	Yes	Yes	NED	-	-	-	**<1**
Lord Evans of Weardale	M	Yes	Yes	NED	-	-	-	2
Joachim Faber	M	Yes	Yes	NED	-	-	-	4
Sam Laidlaw	M	Yes	Yes	NED	-	C	C	8
Irene Lee	F	Yes	Yes	NED	-	-	-	**<1**
John Lipsky	M	Yes	Yes	NED	-	M	M	4
Heidi Miller	F	Yes	Yes	NED	-	-	-	1
Jonathan Symonds	M	**No**	Yes	NED	C	-	-	2
Pauline van der Meer Mohr	F	Yes	Yes	NED	-	M	-	**<1**
Paul Walsh	M	Yes	Yes	NED	-	M	-	**<1**
Number of Meetings				7	7	10	5	
Number of NED only Meetings				n/d				

PIRC assesses a non-executive director's independence according to PIRC's shareholder guidelines. Comments represent PIRC's analysis based on information in the report and accounts. AC = Audit Committee, RC = Remuneration Committee, NC = Nomination Committee, C = Chairperson of Committee, M = Member of Committee.

ANALYSIS: BOARD AND COMMITTEE COMPOSITION

Female directors represent a third of the Board. This level of women on the Board is commended as it is in line with Lord Davies' recommendations.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. Although, the Chairman acts in an executive capacity, there seem to be a clear and robust separation of powers at the head of the company. Best practice would still be to have a Non-Executive Chairman.

PIRC places great importance on there being sufficient number of independent Non-Executive Directors (NEDs) to be able to effectively counterbalance the executive element. There will be 18 directors on the Board at the conclusion of the 2016 AGM. There is an adequate balance between executives and non executives on the board. The majority of the board, excluding the chairman, is independent by PIRC guidelines. All the Non-Executive Directors are considered independent. In compliance with provision B.7.1 of the UK Corporate Governance Code, all directors stand for annual re-election.

The Composition of the Nomination, the Remuneration and the Audit Committees is in line with best practice as they are only comprised of independent Non-Executive Directors. Disclosure of recruitment practice is adequate. There is evidence that the Company undertakes regular board and individual appraisals, including review of the Chairman's performance.

BOARD OF DIRECTORS (post-Meeting)

DOUGLAS FLINT					CHAIRMAN (EXECUTIVE)
AGE	60	**TENURE**	20 Years	**COMMITTEES**	None
OTHER POSITION	Association of Corporate Treasurers [Mem]; British Business [Ambassador]; Chartered Institute of Management Accountants [Fellow]; Institute of Chartered Accountants of Scotland [Mem]; Institute of International Finance [Ch]; International Advisory Board of the China Europe International Business School [Mem]; Mayor of Beijing's International Business Leaders' Advisory Council [Mem]; Shanghai's International Business Leaders' Advisory Council [Mayor]; The Hong Kong Association [Dir]; ex-Accounting Standards Board [Mem]; ex-BP plc [NED]; ex-Counterparty Risk Management Policy Group III [Co-Ch]; ex-Financial Reporting Council [Ch]; ex-HM Revenue and Customs [Adv]; ex-KPMG [Partner]; ex-Standards Advisory Council of the International Accounting Standards Board [Mem]; ex-UK Government's Financial Services Trade and Investment Board [Mem]				
INDEPENDENT BY PIRC	N		**INDEPENDENT BY COMPANY**		N
VOTING RIGHTS	<1%				
SEVERANCE	12 months rolling				
COMMENT	Group Executive Chairman. Was appointed chairman on 3 December 2010. Joined HSBC as Group Finance Director in 1995 and served as Chief Financial Officer, Executive Director, Risk and Regulation from 1 February 2010 until 3 December 2010.				

STUART GULLIVER					CHIEF EXECUTIVE
AGE	56	**TENURE**	7 Years	**COMMITTEES**	None
OTHER POSITION	China Banking Regulatory Commission [Mem of Advisory Council]; Monetary Authority of Singapore International Advisory Panel [Mem]; The Hongkong and Shanghai Banking Corporation Limited [Ch]; ex-Chairman of HSBC France [Ch]; ex-HSBC Bank Middle East Limited [Ch]; ex-HSBC Bank plc [Ch]; ex-HSBC Private Banking Holdings (Suisse) SA [Ch]; ex-HSBC Trinkaus & Burkhardt AG [Dep Ch]				
INDEPENDENT BY PIRC	N		**INDEPENDENT BY COMPANY**		N
VOTING RIGHTS	<1%				
SEVERANCE	12 months rolling				
COMMENT	Appointed Group Chief Executive on 1 January 2011. Joined HSBC in 1980.				

RACHEL LOMAX					SENIOR INDEPENDENT DIRECTOR
AGE	70	**TENURE**	7 Years	**COMMITTEES**	A,N
OTHER POSITION	Arcus European Infrastructure Fund GP LLP [NED]; Bruegel [Dir]; Ditchley Foundation [Trust]; Heathrow Airport Holdings Limited (formerly BAA Limited) [NED]; Imperial College [Mem of Council]; Institute of Fiscal Studies [Pres]; Serco Group plc [NED]; ex-Bank of England [Deputy Governor]; ex-International Regulatory Strategy Group [Ch]; ex-Monetary Policy Committee [Mem]; ex-Reinsurance Group of America Inc [NED]; ex-The Scottish American Investment Company PLC [NED]; ex-TheCityUK [Dir]; ex-UK Government Departments for Transport and Work and Pensions and the Welsh Office [Secretary]; ex-World Bank [VPres]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				
COMMENT	Senior Independent Director since April 2015.				

IAIN MACKAY					EXECUTIVE DIRECTOR
AGE	54	**TENURE**	5 Years	**COMMITTEES**	None
OTHER POSITION	British Heart Foundation [Mem of Audit Committee]; Institute of Chartered Accountants of Scotland [Mem]; ex-GE Consumer Finance [VPres, CFO]; ex-GE Healthcare - Global Diagnostic Imaging [VPres, CFO]; ex-Hang Seng Bank Limited [Dir]				
INDEPENDENT BY PIRC	N		**INDEPENDENT BY COMPANY**		N
VOTING RIGHTS	<1%				
SEVERANCE	12 months rolling				
COMMENT	Group Finance Director. Former CFO, Asia Pacific and CFO, North America.				

MARC MOSES					EXECUTIVE DIRECTOR
AGE	58	**TENURE**	2 Years	**COMMITTEES**	None
OTHER POSITION	HSBC Insurance (Bermuda) Limited [Dir]; HSBC Private Bank (Suisse) SA [Dir]; HSBC Private Banking Holdings (Suisse) SA [Dir]; Institute of Chartered Accountants of England and Wales [Mem]; ex-JP Morgan [CFO]; ex-PricewaterhouseCoopers [Audit Partner]				
INDEPENDENT BY PIRC	N		**INDEPENDENT BY COMPANY**		N
VOTING RIGHTS	<1%				
SEVERANCE	12 months rolling				
COMMENT	Group Chief Risk Officer. He previously worked for HSBC as Chief Financial and Risk Officer, Global Banking and Markets.				

PHILLIP AMEEN					NON-EXECUTIVE DIRECTOR
AGE	67	**TENURE**	1 Year	**COMMITTEES**	A
OTHER POSITION	HSBC Bank USA [NED]; HSBC Finance Corporation [NED]; HSBC North America Holdings Inc [NED]; HSBC USA Inc. [NED]; Skyonic Corporation [NED]; University of North Carolina [Mem of Adv Board]; ex-American Institute of Certified Public Accountants [Mem]; ex-Financial Accounting Foundation [Trust]; ex-General Electric Corp [VPres]; ex-KPMG [Partner]; ex-Peat Marwick Mitchell & Co [Audit PArtner]; ex-R3 Fusion, Inc [NED]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

KATHLEEN CASEY					NON-EXECUTIVE DIRECTOR
AGE	49	**TENURE**	2 Years	**COMMITTEES**	A
OTHER POSITION	Alternative Investment Management Association [Ch]; Library of Congress [Mem of Trust Fund Board]; Patomak Global Partners [Snr Adv]; Pennsylvania State University [Trust]; Public Company Accounting Oversight Board [Mem of Advisory Council]; ex-US Securities and Exchange Commission [Commissioner]; ex-United States Senate Committee [Staff Dir, Counsel, Chief of Staff for US Senator]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

LAURA MAY LUNG CHA					NON-EXECUTIVE DIRECTOR
AGE	66	**TENURE**	5 Years	**COMMITTEES**	N,C
OTHER POSITION	China Banking Regulatory Commission's [Mem of International Adv Council]; China Telecom Corporation Limited [NED]; Financial Services Development Council of Hong Kong SAR [Ch]; Foundation Asset Management Sweden AB [Snr Adv]; Hong Kong SAR [Non-official Mem]; The Hongkong and Shanghai Banking Corporation Limited [Dep Ch]; Unilever N.V. [NED]; Unilever PLC [NED]; ex-12th National People's Congress of China [Hong Kong Delegate]; ex-Bank of Communications Co. Ltd [NED]; ex-Baoshan Iron and Steel Co. Limited [NED]; ex-China Securities Regulatory Commission [VCh]; ex-Hong Kong Exchanges and Clearing Limited [NED]; ex-ICAC Advisory Committee on Corruption [Ch]; ex-Johnson Electric Holdings Limited [NED]; ex-Securities and Futures Commission in Hong Kong [Deputy Ch]; ex-Tata Consultancy Services Limited [NED]; ex-University Grants Committee in Hong Kong [Ch]; ex-Yale School of Management [Mem of Advisory Board]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
COMMENT	She is the non-executive Deputy Chairman of, and former corporate relations adviser to, The Hongkong and Shanghai Banking Corporation Limited.				

HENRI DE CASTRIES					NON-EXECUTIVE DIRECTOR
AGE	61	**TENURE**	<1 Years	**COMMITTEES**	None
OTHER POSITION	AXA Hearts in Action [Ch]; AXA [Ch & CEO]; French National Foundation for Political Science (FNSP)[NED]; Institut Montaigne [Ch]; Nestlé S.A.[NED]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
COMMENT	There are concerns over his aggregate time commitments.				

LORD EVANS OF WEARDALE					NON-EXECUTIVE DIRECTOR
AGE	58	**TENURE**	2 Years	**COMMITTEES**	None
OTHER POSITION	Ark Data Centres [Dir]; Darktrace Limited [Mem of Adv Board]; Facewatch Limited [Mem of Adv Board]; ex-Accenture plc [Snr Adv]; ex-MI5 [Dir General]; ex-UK National Crime Agency [NED]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

JOACHIM FABER					NON-EXECUTIVE DIRECTOR
AGE	65	**TENURE**	4 Years	**COMMITTEES**	None
OTHER POSITION	Allianz France S.A. [NED]; Coty Inc. [NED]; Deutsche Börse AG [Ch]; European School for Management and Technology [Mem of Adv Board]; Joh A. Benckiser SARL [Ch of the Shareholder Committee]; The Hongkong – Europe Business Council [Mem]; ex-Allianz Global Investors SGR [Ch]; ex-Allianz Global Investors AG [CE]; ex-Allianz Global Investors Deutschland GmbH [Ch]; ex-Allianz Global Investors Kapitalanlagegesellschaft [Ch]; ex-Allianz SE [Mem of Management Board]; ex-Allianz SpA [Dir]; ex-Bayerische Brse AG [Dir]; ex-Citigroup Inc [Various Positions]; ex-German Council for Sustainable Development [Mem]; ex-OSRAM Licht AG [Ch]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

SAM LAIDLAW					NON-EXECUTIVE DIRECTOR
AGE	60	**TENURE**	8 Years	**COMMITTEES**	R*,N*
OTHER POSITION	ex-Amerada Hess Corporation [Pres, COO]; ex-Centrica plc [CE]; ex-Chevron Corporation [VPres]; ex-Department for Transport [NED]; ex-Enterprise Oil plc [CE]; ex-Hanson PLC [NED]; ex-UK Prime Minister's Business Advisory Group [Mem]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

IRENE LEE					NON-EXECUTIVE DIRECTOR
AGE	62	**TENURE**	<1 Years	**COMMITTEES**	None
OTHER POSITION	Cathay Pacific Airways Limited [NED]; China Light & Power Holdings Limited [NED]; Hang Seng Bank Limited [NED]; Hysan Development Company Limited [Ch]; Noble Group Limited [NED]; The Hongkong and Shanghai Banking Corporation Limited [NED]; ex-Citibank; ex-Commonwealth Bank of Australia; ex-ING Bank (Australia) Limited [NED]; ex-Keybridge Capital Limited [NED]; ex-QBE Insurance Group Limited [NED]; ex-SealCorp Holdings Limited				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y

JOHN LIPSKY					NON-EXECUTIVE DIRECTOR
AGE	69	**TENURE**	4 Years	**COMMITTEES**	R,N
OTHER POSITION	Aspen Institute [Co-Ch]; National Bureau of Economic Research [Dir]; Paul H. Nitze School of Advanced International Studies [Fellow]; Stanford Institute for Economic Policy Research [advisory board mem]; ex-American Council on Germany [Dir]; ex-Anderson Global Macro, LLC [Adv]; ex-Economic Club of New York [Trust]; ex-IMF [Dir, Special adviser]; ex-J P Morgan Investment Bank [VCh]; ex-Japan Society [Dir]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

HEIDI MILLER					NON-EXECUTIVE DIRECTOR
AGE	62	**TENURE**	1 Year	**COMMITTEES**	None
OTHER POSITION	First Data Corporation [NED]; General Mills Inc. [NED]; ex-Bank One Corporation [Exec VPres]; ex-Citigroup Inc [Exec VPres]; ex-International Financial Reporting Standards Foundation [Trust]; ex-JPMorgan Chase & Co. [Exec VPres]; ex-Merck & Co. Inc. [NED]; ex-Progressive Corp [NED]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				

JONATHAN SYMONDS					NON-EXECUTIVE DIRECTOR
AGE	56	**TENURE**	2 Years	**COMMITTEES**	A*
OTHER POSITION	Genomics England Limited [NED]; HSBC Bank plc [Ch]; Innocoll AG [Ch]; Innocoll AG [NED]; Proteus Digital Health Inc. [NED]; ex-AstraZeneca plc [CFO]; ex-Diageo plc [NED]; ex-Goldman Sachs [MD, Partner]; ex-KPMG [Partner]; ex-Novartis AG [CFO]				
INDEPENDENT BY PIRC	N		**INDEPENDENT BY COMPANY**		Y
VOTING RIGHTS	<1%				
COMMENT	Not considered independent due to his connection with the Executive Chairman, Douglas Flint. They worked as partners together at KPMG and both were sitting on the the UK Accounting Standards Board at the same time. In addition, it is noted that he is also the Chairman of HSBC Bank plc, the Company's UK subsidiary.				

PAULINE VAN DER MEER MOHR					NON-EXECUTIVE DIRECTOR
AGE	56	**TENURE**	<1 Years	**COMMITTEES**	R
OTHER POSITION	ASML Holding NV [Mem of supervisory board]; Rotterdam School of Management BV [Ch of supervisory board]; Royal DSM NV [Mem of supervisory board]; ex-ABN AMRO Bank NV [Snr. Exec Vpres and Head of Gp Human Resources]; ex-Dutch Banking Code Monitoring Commission [Mem]; ex-Erasmus University [Pres]; ex-Royal Dutch Shell Group [HR Dir and Var]; ex-TNT NV [Gp Human Resources Dir]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y

PAUL WALSH					NON-EXECUTIVE DIRECTOR
AGE	60	**TENURE**	<1 Years	**COMMITTEES**	R
OTHER POSITION	Avanti Communications Group Plc [Ch]; Compass Group PLC [Ch]; FedEx Corporation [NED]; RM2 International S.A. [NED]; Simpsons Malt Limited [NED]; ex-Centrica plc [NED]; ex-Diageo plc [Gp Chief Exec]; ex-Grand Metropolitan [Dir]; ex-Pillsbury [Chied Exec]; ex-Unilever PLC [NED]; ex-United Spirits Limited [NED]				
INDEPENDENT BY PIRC	Y		**INDEPENDENT BY COMPANY**		Y

BOARD COMPOSITION

BOARD COMPOSITION FOLLOWING THE AGM

			FTSE 100 MEAN	
	Number	% of Board	Number	% of Board
Executive Director	4	22.22	2.9	26.7
Independent NEDs	13	72.22	5.9	55.0
Connected NEDs	1	5.56	0.9	8.5
Other	0	0.0	1.0	9.4

BOARD COMMITTEES FOLLOWING THE AGM

				FTSE 100 MEAN	
	Number of Members	% Independent by PIRC	% Independent by Company	Number of Members	% Independent by PIRC
Whole Board	18	72.22	77.78	10.7	54.7
Audit	4	75.0	100.0	3.9	92.5
Remuneration	4	100.0	100.0	4.2	89.0
Nomination	4	100.0	100.0	5.0	81.5
CSR	1	100.0	100.0	-	-

WORK FORCE GENDER BALANCE

	NUMBER	PERCENTAGE
Female Board Members	6	33.3
Female Senior Management	2235	24.0
Female Work Force	139357	52.0

REMUNERATION

NON-EXECUTIVE DIRECTORS FEES - GBP

	2015	% CHANGE	2014	% CHANGE	2013
Fees	3,449,000	24.33	2,774,000	35.91	2,041,000
Other	221,000	28.49	172,000	-16.1	205,000
Total	3,670,000	24.58	2,946,000	31.17	2,246,000

EXECUTIVE REMUNERATION BREAKDOWN - GBP

	2015	% CHANGE	2014	% CHANGE	2013
Cash/Deferred					
Salary	4,150,000	0.0	4,150,000	20.29	3,450,000
Annual Bonus Cash/Deferred	2,967,000	-6.99	3,190,000	9.74	2,907,000
Other Bonus	3,600,000	-2.39	3,688,000	10747.06	34,000
Benefits	1,097,000	10.47	993,000	11.07	894,000
Dividends on LTIPs	0	-	0	-	0
Total	11,814,000	-1.72	12,021,000	65.01	7,285,000
Pension Payments					
Defined Benefit	0	-	0	-	0
Defined Contribution	0	-	0	-	0
Pension Other	2,075,000	0.0	2,075,000	20.29	1,725,000
Share Incentives					
Options Awarded	0	-	0	-	0
Options Rewarded	0	-	0	-	0
LTIP Awarded	4,374,000	-24.78	5,815,000	32.16	4,400,000
LTIP Rewarded	4,171,000	-4.64	4,374,000	-24.78	5,815,000

CEO REMUNERATION BREAKDOWN - GBP

	2015	% CHANGE	2014	% CHANGE	2013
Cash/Deferred					
Salary	1,250,000	0.0	1,250,000	0.0	1,250,000
Annual Bonus Cash/Deferred	1,072,000	-16.9	1,290,000	-29.62	1,833,000
Other Bonus	1,700,000	0.0	1,700,000	-	0
Benefits	724,000	12.77	642,000	-2.43	658,000
Dividends on LTIPs	0	-	0	-	0
Total	4,746,000	-2.79	4,882,000	30.5	3,741,000
Pension Payments					
Defined Benefit	0	-	0	-	0
Defined Contribution	0	-	0	-	0
Pension Other	625,000	0.0	625,000	0.0	625,000
Share Incentives					
Options Awarded	0	-	0	-	0
Options Rewarded	0	-	0	-	0
LTIP Awarded	2,112,000	-42.41	3,667,000	22.23	3,000,000
LTIP Rewarded	1,969,000	-6.77	2,112,000	-42.41	3,667,000

REMUNERATION SUMMARY

TOTAL EXECUTIVE REMUNERATION - GBP

	2015	% CHANGE	2014	% CHANGE	2013
Awarded	18,263,000	-8.28	19,911,000	48.48	13,410,000
Rewarded	18,060,000	-2.22	18,470,000	24.59	14,825,000

TOTAL CEO REMUNERATION - GBP

	2015	% CHANGE	2014	% CHANGE	2013
CEO	Stuart Gulliver		Stuart Gulliver		Stuart Gulliver
Awarded	7,483,000	-18.43	9,174,000	24.55	7,366,000
Rewarded	7,340,000	-3.66	7,619,000	-5.15	8,033,000

CEO VS. AVERAGE EMPLOYEE

	2015	% CHANGE	2014	% CHANGE	2013
CEO Salary	1,250,000	0.0	1,250,000	0.0	1,250,000
CEO Total*	4,746,000	-2.79	4,882,000	30.5	3,741,000
Average Employee Pay	43,331	1.98	42,492	11.59	38,077
Ratio	110:1		115:1		98:1

*Includes salary, benefits and Annual Bonus (deferred and cash).

COMPARATIVE SALARY RANKING

CEO Salary: 2 out of 24.
Comparator Used: FTSE 100 - Financials industry

FIXED REMUNERATION

Description	**Maximum Pension contribution:** 30% of salary **Maximum Benefit:** No limit provided. Benefits and non-taxable benefits paid to the CEO equated to 57% of basic salary. **Additional Information:** Base salary increases for each executive Director will not exceed more than 15% of 2016 base salary levels during the term of this policy. The Fixed pay allowance ('FPA') is an additional element of Executive Directors' fixed remuneration. FPA for the duration of this policy will be capped at 150% of base salary. FPAs are non-pensionable and will be granted in shares that vest immediately but subject to a retention period. Shares will be released annually on a pro rata basis over five years. The Committee retains the discretion to pay the fixed pay allowance in cash if required to do so by regulation. Directors receive a cash allowance in lieu of a pension entitlement. Benefits take account of local market practice and include, but are not restricted to, the provision of medical insurance, income protection insurance, health assessment, life assurance, club membership, tax return assistance, car benefit (including any tax due on the benefit) and travel assistance. Stuart Gulliver is also provided with accommodation and car benefit in Hong Kong. HSBC pay any tax due on this benefit.
Policy	Pay elsewhere in the Company is used in determining directors pay. The decrease in maximum limit for cash payments in lieu of pension from 50% to 30% of salary is welcomed. However, the new limit is still considered excessive. The creation of a limit for maximum potential benefits would also be best practice.
Implementation	All elements of the Single Figure Remuneration Table are adequately disclosed, so are next year's salaries and fees for each director. Salaries are to remain the same for all executives. However, the CEO salary is above the upper quartile when compared with salaries of other CEOs in the Comparator Group. Benefits paid to the CEO were worth worth 50% of salary which is considered excessive. £643,000 were paid to the CEO just in relation to : Car benefits (UK and Hong-Kong); Hong Kong bank-owned accommodation; and Tax expense on car benefit and Hong Kong bank-owned accommodation.

VARIABLE REMUNERATION

	Annual Incentive
Description	**Maximum Award:** 215% of salary **Rewarded during the year:** 86% of salary for the CEO. **Additional Information:** Performance is measured against an annual scorecard, based on targets set for financial outcomes and non-financial outcomes. The financial measures will have a weighting of 60% for the Group CEO, 50% for the Group Chief Financial Officer and 25% for the Group CRO. The Committee has the discretion to adjust the targets but also to vary the metrics and their weightings. 25% of the maximum award opportunity will vest at threshold performance. On vesting, the shares will be subject to a minimum retention period of at least six months. Awards are subject to clawback provisions for seven years from date of award. Dividend equivalents will be paid on the vested shares. The maximum award limit will be increasing from 181% of salary to 215% of salary from 2016.

	Group Perfomance Share Plan (GPSP)
Description	**Maximum Potential Award:** 320% of salary **Vested during the year:** 158% of salary for the CEO (rewarded). **Additional Information:** Forward-looking performance is measured against a long-term scorecard with financial outcomes (60% weighting) and non-financial outcome, including risk and strategy-related measures (40% weighting). Relative Total Shareholder Return ('TSR') will have a weighting of one-third of the total financial measures. One-third will be based on achieving return on equity targets and one-third will be based on the attainment of cost-efficiency targets. Performance period is three years. Awards will vest in five equal instalments with the first vesting on or around the third anniversary of the grant and the last instalment vesting on or around the seventh anniversary of the grant date. These are discretionary and are subject to malus during the vesting period and clawback for a period of seven to ten years from the date of award. Dividend equivalents will be paid on the vested shares. The maximum award limit will be decreasing from 381% of salary to 320% of salary from 2016.

Policy	The GPSP is adequately linked to Company's non-financial KPIs however the metrics used are not operating interdependently. Performance condition under the proposed policy will be three years which is not considered sufficiently long-term. However, the use of an additional holding period for the award to vest is welcomed. Malus and clawback provisions are adequately attached to both the Annual Incentive and the GPSP. Annual bonus is subject to a deferral period. This deferral period is currently three years for at least half of the bonus, which is commended. The annual bonus uses a performance scorecard system but targets do not operate interdependently.
Implementation	Disclosure of performance conditions and targets for the annual bonus and the LTIP are acceptable. However, dividend equivalents paid on shares vesting should be disclosed separately.

CONTRACTS

Description	**Max. Notice period by the Company:** 12 months **Max. Notice period by the Executive:** 12 months **Additional Information:** Executive Directors may be entitled to payments in lieu of notice, which shall consist of base salary, pension entitlements and other contractual benefits. In exceptional circumstances as determined by the Committee, the executive Director may be eligible for annual incentives and long-term incentives based on the time worked in the performance year and on the individual executive Director's contribution. In the event of a change of control, outstanding awards will be treated in line with the provisions set out in the respective plan rules. On recruitment, the Company can authorise the payment of Guaranteed Annual Bonus. The other elements of the remuneration structure would follow the standard pay policy.
Policy	Termination provisions for Executive directors are considered acceptable. Annual and long-term incentives will always be, at maximum, pro-rated for period served and base on achievement of performance conditions. Maximum notice period cannot exceed one year in any circumstances and payments in lieu of notice are in line with best practice. However, there are major concerns over the recruitment policy and in particular the discretion given to the Committee to award a Guaranteed Bonus on recruitment. Such award would be highly inappropriate and is not supported.
Implementation	No loss of office payments or recruitment awards were made during the year under review. It is noted that a payment to former Executive Director, Mr Flockhart, has been made during the year. This payment worth £155,503 was made in relation to previous awards which were subject to double taxation (UK and Hong-Kong), prior his appointment on the Board on January 2011 (he resigned in April 2012). Upon engagement, the company provided further clarification on this matter, which is welcomed.

GENERAL CONCERNS

Policy	Pay policy aims are fully explained in terms of the Company's objectives and the Company clearly describes the rationale for the proposed changes to the policy. Directors are required to build up an adequate shareholding: the CEO has five years to hold the equivalent of 400% of his salary in shares of the Company. However, the maximum potential award under all incentive schemes is considered excessive as it can amount to up to 535% of salary for Executive Directors. In addition, to this variable element, the Executives are entitled to a Fixed Pay Allowance (FPA), now capped at 150% of salary, which is inappropriate. It is disappointing to see that the Company, in justification to remaining competitive in the market for talent, has found a way to circumvent the spirit of the CRD IV regulations, which capped variable pay at 200% of fixed pay. Such FPA replaced variable pay by a guaranteed fixed payment and allowed HSBC to keep Executive pay close to its original levels, before the regulations.
Implementation	The changes in CEO pay over the last five years is in line with the changes in Company's TSR performance over the same period. However, there are important concerns over the level of variable pay of the CEO which exceeds 200% of salary and which comes in addition to the Fixed Pay allowance. In addition the ratio between the CEO pay and the average employee pay is deemed highly excessive at 110:1.

BEST PRACTICE PRINCIPLES: REMUNERATION REPORT

	BEST PRACTICE PRINCIPLE AND CRITERIA: IMPLEMENTATION	ANALYSIS
A.	**Fixed Remuneration**	
1.	All elements of the Single Total Remuneration Table are adequately disclosed?	Yes
2.	Change in CEO salary is in line with the rest of the Company?	**No**
3.	The highest paid director/CEO's salary is below upper quartile in PIRC's comparator group?	**No**
4.	The highest paid director/CEO's salary is below lower quartile in PIRC's comparator group?	**No**
5.	Are Next year's fees and salaries clearly stated?	Yes
B.	**Variable Pay**	
6.	Future performance conditions and past targets for annual bonuses paid are stated?	Yes
7.	Performance conditions and targets for long term incentives are disclosed?	Yes
8.	All share incentive awards are fully disclosed with award dates and prices?	Yes
9.	Is dividend accrual applied and separately categorised?	**No**
10.	Vesting scale for long term incentive is clear?	Yes
C.	**Excessiveness and other remuneration practices**	
11.	Acceptable balance of CEO pay with financial performance?	Yes
12.	Awards made under all schemes during the year are not excessive?	**No**
13.	Total realised rewards under all incentive schemes were not excessive?	**No**
14.	Acceptable ratio of CEO pay compared to average employee pay?	**No**
15.	Has discretion been applied, if yes, has it been appropriately applied?	n/a
16.	Changes in practice are fully explained and appropriate?	n/a
D.	**Contract**	
17.	Appropriate compensation and/or loss of office payments were made during the year?	Yes
18.	Appropriate recruitment awards were made during the year under review?	n/a

DISCLOSURE RATING: B BALANCE RATING: E

BEST PRACTICE PRINCIPLES: POLICY REPORT

BEST PRACTICE PRINCIPLE AND CRITERIA: POLICY		ANALYSIS
A.	**Fixed Remuneration**	
1.	Pay elsewhere in the Company is used in determining directors pay?	Yes
2.	Company consults employees when setting executive pay?	**No**
3.	There is information on the composition of NEDs' remuneration and how it is determined?	Yes
B.	**Variable Pay**	
4.	Maximum potential awards under annual bonuses are stated?	Yes
5.	Maximum potential awards for long term incentive schemes disclosed?	Yes
6.	Does clawback operate on the bonus?	Yes
7.	Does clawback operate on the LTIP?	Yes
8.	Performance period for the LTIP is 5 years or more?	**No**
9.	If performance period is 4 years or less there is an additional holding period applied?	Yes
10.	Are executive share schemes' long term performance measures appropriately linked to non-financial KPIs?	Yes
C.	**Excessiveness and Other Remuneration Practices**	
11.	Pay policy aims are fully explained in terms of the Company's objectives?	Yes
12.	Total potential awards under all incentive schemes are not excessive?	**No**
13.	Schemes are available to enable all employees to benefit from business success without subscription?	Yes
14.	Directors are required to build up an adequate shareholding?	Yes
15.	The intended balance of the pay package is fully described?	Yes
D.	**Contracts**	
16.	No pre-determined compensation in excess of one year?	Yes
17.	Are termination provisions not excessive?	Yes
18.	Mitigation statement has been made?	**No**
19.	Duration of contracts and company liabilites on termination are given?	Yes

PIRC POLICY RATING: ADD

SUMMARY:
Summary of changes in policy are proposed during the year under review:
- Cash in lieu of pension has been reduced from 50% to 30% of base salary for executives. The proposed limit is still considered to be excessive.
- A limit of 150% of base salary has been set for the maximum Fixed Pay Allowance to Executive Directors. The creation of a limit is commended but the use of such fixed allowance is still not considered appropriate.
- The Maximum opportunity under the annual bonus has increased from 181% of salary to 215% of salary while the opportunity under the Long-Term Share plan reduced from 381% to 320% of salary. Overall maximum opportunity has therefore been reduced from 562% of base salary to 535% of base salary.
- Payments under the Performance Share Plan are now based on achievement of performance targets over a three year period instead of an annual scorecard. Vesting of awards will be in equal in equal instalments over five years following performance period.

AUDIT

Audit Firm	PWC
Date Appointed	2015-01-01
Tenure	1 Year
Audit Partner	Richard Oldfield
Partner Appointed	2015-01-01

AUDITOR REMUNERATION - USDm	2015 PWC	2014 KPMG Audit Plc	2013 KPMG Audit Plc
Statutory audit fee	62.0	40.6	43.4
Acceptable non-audit work undertaken by the auditors			
Audit-related, mandatory regulatory	16.6	22.6	27.4
Tax compliance	1.9	1.5	1.3
Subtotal Authorised	18.5	24.1	28.7
Unacceptable non-audit work undertaken by the auditors			
Other tax services	0.9	0.8	1.3
Aquisition-related	0.0	0.0	0.0
Other services	17.7	10.4	7.0
Total non-audit fees	18.6	11.2	8.3
Company percentage of audit fees	**30.0**	**27.59**	**19.12**
Total Company three year percentage of audit fees	**26.0**		
Index average percentage of audit fees	24.1		
Index three year average percentage of audit fees	29.0		

ANALYSIS: AUDIT AND REPORTING

PIRC believes there is a risk that over time an auditor's familiarity with the audit client's affairs may result in excessive trust. If the same firm continues to hold the position of auditor for many years, then previous judgements are not subject to outside scrutiny. We do not consider that rotation of the audit partner, within the same firm, is sufficient. We continue to maintain that a commitment to rotate the audit firm after a period of five years is best practice.
PwC was first appointed as the Company's external auditor at last year's AGM. The tenure of the external auditor does not raise independence concerns.

The total non-audit fees were approximately 30% of audit fees during the year under review. This raise concerns over the auditors' independence.

The Audit Committee composition as well as its report are in line with best practice.

AUDIT CONCERNS

1. The audit firm is not subject to fixed term rotation.
2. Level of non-audit fees raises concerns over the independence of the auditors.

FINANCIALS

	2015 USD	2014 USD	2013 USD
Year End	31 December	31 December	31 December
Earnings Per Share (p)	65.0	69.0	84.0
Dividend Per Ordinary Share (p)	0.5	49.0	48.0

SHARE CAPITAL AND SHAREHOLDER RELATIONS

DISCLOSED ORDINARY VOTING RIGHTS

	PERCENTAGE
BlackRock, Inc.	5.96

CAPITAL STEWARDSHIP

Shareholder equity is the total of capital that has been invested in a company by its shareholders and the retained gains of that company attributable to shareholders. Net assets given by a company's financials statements balance with its shareholder equity and reflect how the shareholder equity has been invested or lost by the company. A comparison of a company's net assets to its market capitalisation provides information on the market's view of the company's ability to provide sufficient return on shareholder funds invested and to realise the values attributed to its assets.

Goodwill is written off when it becomes apparent that an acquisition is worth less than the company paid for it. A high level of goodwill written off by a company indicates a pattern of shareholder funds being lost through overpaying for acquisitions.

	ISSUED	AUTHORISED	TREASURY SHARES	CURRENCY
Number of Shares (m)	19,685.1		0	USD

Shareholder Equity Per Share	9.57
Share Price at The Year End	7.95
Shareholder Equity Written Off as Goodwill	0.3
Shareholder Equity Per Share Including Goodwill Written Off	9.87
Tangible Shareholder Equity Per Share	8.32

	PERCENTAGE
Premium of Share Price to Shareholder Equity Per Share	-16.98
Premium of Share Price to Shareholder Equity Per Share Inclusive of Goodwill Previously Written Off	-19.49
Premium of Share Price to Shareholder Equity Per Share Less Goodwill and Intangibles	-4.51
Aquisition Losses - Goodwill Written Off as a Proportion of Share Price	741.41

NET ASSETS	USD(m)	GOODWILL AND INTANGIBLES	USD(m)
Total Gross Net Assets (Total Equity)	197,518	Other Intangible Assets	8,311
Minority and Other Equity Interests	9,058	Goodwill Carried	16,294
Shareholder Equity	188,460	Goodwill Written Off	5,893
Tangible Shareholder Equity	163,855		

ANALYSIS: CAPITAL STEWARDSHIP

Shareholders' funds are mainly invested in loans and advances to customers (US$ 924,454.0m) and in financial investments (US$ 428,955.0m), with intangible assets accounting for a relatively low proportion of assets overall. Accumulated goodwill impairment as at 31 December, 2015 was US$ 5,893.0 million. At the year end, the shares were trading at a discount of 16.98% to its share of group net assets, which may indicate concern in the market that some of these assets are overvalued and the company may not be able to achieve the required rate of return on funds invested.

ANALYSIS: SHAREHOLDER RIGHTS

PIRC considers distribution policy fundamental both to the income requirements of investors and to a company's investment and financial planning. Shareholders have a clear financial interest in maintaining and increasing their income from dividends and other distributions, but without compromising the company's long-term future. The directors may be under pressure to increase short-term distributions, but they must exercise their duty to the company as a whole.
The Board has approved a fourth interim dividend in respect of 2015 of $0.21 per ordinary share. This took dividends per ordinary share in respect of the year to $0.51, $0.01 higher than 2014.The dividend has not been put forward for shareholder approval.

The nominal value of HSBC Holdings' issued share capital paid up at 31 December 2015 was $9,842,562,967 divided into 19,685,096,934 ordinary shares of $0.50 each, 1,450,000 non-cumulative preference shares of $0.01 each and 1 non-cumulative preference share of £0.01, representing approximately 99.9999%, 0.0001%, and 0%, respectively, of the nominal value of HSBC Holdings' total issued share capital paid up at 31 December 2015.
There are three classes of preference shares in the share capital of HSBC Holdings; non-cumulative preference shares of $0.01 each (the 'dollar preference shares'); non-cumulative preference shares of £0.01 each (the 'sterling preference shares'); and non-cumulative preference shares of €0.01 (the 'euro preference shares'). The dollar preference shares in issue are Series A dollar preference shares and the sterling preference share in issue is a Series A sterling preference share. There are no euro preference shares in issue. The preference shares, which have preferential rights to income and capital, do not, in general, confer a right to attend and vote at general meetings.

SHAREHOLDER CONCERNS

1. The meetings between NEDs and shareholders are not reported.
2. Declared dividend or policy is not put to the vote.

STRATEGIC REVIEW

BEST PRACTICE PRINCIPLE AND CRITERIA: STRATEGIC REVIEW		ANALYSIS
A.	**Overview**	
1.	The Company provides a fair review of its business	Yes
2.	The Company reports on the principal risks and uncertainties it faces	Yes
B.	**Business Model and Strategy**	
3.	The company provides a description of its business model	Yes
4.	The company explains its strategy	Yes
C.	**Analysis of Development and Performance**	
5.	The company describes the main trends and factors likely to affect the future development	Yes
6.	Information provided on environmental, employee, social, community and human rights	Yes
D.	**Key Performance Indicators**	
7.	The review includes analysis using financial performance indicators	Yes
8.	The review uses other key performance indicators including information of environmental matter	Yes

CORPORATE SOCIAL RESPONSIBILITY

CSR PRINCIPLE

PRINCIPLE A

All companies have environmental, employment, social, human rights and community impacts. PIRC expects every listed company to publish comprehensive policies relating to these. Publishing such policies provides a clear message to both internal and external stakeholders. Such policy documents should be formal statements describing the group's approach to dealing with these issues in its operations.

PRINCIPLE B

There should be clear lines of accountability and management for each issue.

PRINCIPLE C

As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views.

PRINCIPLE D

Performance indicators are published for the main impacts identified. There should be evidence of formal procedures in place for monitoring performance and evaluating outcomes against established indicators.

PRINCIPLE E

Audits, external standards and independent verification should be used.

ENVIRONMENTAL BEST PRACTICE

BEST PRACTICE PRINCIPLE AND CRITERIA: ENVIRONMENT		ANALYSIS
A.	**There should be a comprehensive, published policy**	
1.	Group-wide environmental policy published	Yes
B.	**There should be clear lines of accountability and management**	
2.	Board-level responsibility for environmental issues identified	Yes
C.	**Evidence of procedures for stakeholder engagement**	
3.	Environmental standards required of suppliers	Yes
4.	Evidence of structured consultation process to gauge stakeholder views	**No**
D.	**Companies should report fully on performance**	
5.	Target setting disclosed	Yes
6.	Performance evaluated against targets	Yes
E.	**Audits, external standards and independent verification**	
7.	Methodology used to calculate carbon emissions is disclosed	Yes
8.	Environmental reporting is externally verified	**No**

	UNIT	2015	2014	KPI SET	TARGET SET
GGE - Direct	tCO_2	662,000	752,000	N	Y
GGE - Indirect	tCO_2	109,000	n/d	N	Y
Water Consumption	M^3	n/d	n/d		
Landfill	t	n/d	35,800		

*GGE - Greenhouse Gas Emissions *t - Metric Tonne

CARBON DISCLOSURE PROJECT

Response	Responded
Disclosure Score	100
Performance Score	B
Does the company have a dedicated committee or board member in charge of sustainability/ESG issues.	Yes
Has the Company disclosed quantitative and qualitative environmental information through CDP's climate change questionnaire?	Yes
How has the company responded to the CDP's question on whether it supports an international agreement between governments on climate change?	Yes
Has the company introduced and disclosed that they have emission reduction targets regardless of whether or not they are absolute or relative targets?	Yes

ANALYSIS: ENVIRONMENT

There is evidence that the Company has a clear Environment policy in place.

HSBC Holdings established a Conduct and Values Committee in January 2014 which is responsible for advising the Board, its committees and executive management on corporate sustainability policies across the Group including environmental, social and ethical issues. The Committee is chaired by Rachel Lomax.

The Company has an Ethical and Environmental Code of Conduct for Suppliers of Goods and Services.

HSBC have disclosed a number of targets and there are clear environmental performance indicators. For example, the Company has signed agreements to increase the percentage of its electricity from new wind and solar sources to 9%, and have a target of 25% by 2020.

In April 2014, HSBC became a member of the International Capital Market Association Executive Committee for the Green Bond Principles. In 2015, the Group issued a green bond for the first time when HSBC France raised €500m ($554m) to fund customers and projects in the following sectors: renewables, energy efficiency, sustainable waste and water management, sustainable land use, climate change adaptation, and clean buildings and transportation. HSBC also pledged to invest $1bn in a portfolio of green, social or sustainable bonds.
There is no evidence that Environmental reporting is externally verified. PIRC recommends the verification of external data as a safeguard to accountability and business transparency and would encourage HSBC to get all CSR disclosed information verified.

EMPLOYMENT BEST PRACTICE

BEST PRACTICE PRINCIPLE AND CRITERIA: EMPLOYMENT		ANALYSIS
A.	**There should be a comprehensive, published policy**	
1.	Group-wide employment policy published	Yes
2.	Health and safety policy published	Yes
3.	Employment policy includes a commitment to equal employment opportunies	Yes
4.	Group-wide human rights policy published	Yes
B.	**There should be clear lines of accountability and management**	
5.	Board-level responsibility for human resource issues indentified	Yes
C.	**Evidence of procedures for stakeholder engagement**	
6.	Trade union negotiating framework, works councils or similar strategic-level procedures for information and consultation	Yes
7.	Company undertakes regular employee satisfaction surveys	Yes
D.	**Companies should report fully on performance**	
8.	Employment performance indicators are disclosed	**No**
9.	Target setting disclosed	**No**
E.	**Audit, external standards and independent verification**	
10.	Performance evaluated against targets	**No**

ANALYSIS: EMPLOYMENT

HSBC hase disclosed a Group-wide equal employment and health and safety policy. It is pleasing to see that they have signed up to global commitments and standards, including the UN Global Compact, the Universal Declaration of Human Rights and the Global Sullivan Principles too.

The Corporate Real Estate department within HSBC has overall responsibility for health and safety and has set global health and safety policies and standards for use wherever in the world HSBC operates. Achieving these policies and standards is the responsibility of the country Chief Operating Officer.

The CVC monitored employee engagement across the Group and received the results of the Group People Survey conducted during 2015. Areas requiring attention were highlighted and the Committee requested that management provide regular updates on plans to address these. There is no evidence that trade union negotiating framework, works councils or similar strategic level procedures for information and consultation are in place.

HSBC have not disclosed employee performance indicators. These give indication to shareholders about the performance of the group, and it would be beneficial to have measurable, time-sensitive targets to do so.

The Company is guided by the International Bill of Human Rights, and support the UN Declaration of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

COMMUNITY INVESTMENT BEST PRACTICE

BEST PRACTICE PRINCIPLE AND CRITERIA: COMMUNITY INVESTMENT		ANALYSIS
A.	**There should be a comprehensive, published policy**	
1.	Group-wide community policy published	Yes
B.	**There should be clear lines of accountability and management**	
2.	Board-level responsibility for community issues identified	Yes
C.	**Evidence of procedures for stakeholder engagement**	
3.	Evidence that the company is forming partnerships with external bodies	Yes
4.	Evidence that the company uses feedback to develop appropriate procedures	Yes
D.	**Companies should report fully on performance**	
5.	Company provides performance indicators to evidence progress	Yes
E.	**Audits, external standards and independent verification**	
6.	Company reporting is in accordance with GRI or has had external review	**No**

	UNIT	2015	2014
Cash Donations (UK)	USD	n/d	n/d
Cash Donations (Global)	USD	205,000,000	n/d
Other Company Giving (in Kind)	USD	n/d	880,000,000
Political Donations (Europe)	USD	n/d	n/d
Political Donations (outside EU)	USD	n/d	n/d

ANALYSIS: COMMUNITY

HSBC provide satisfactory disclosure Group-wide community policies.

The Philanthropic and Community Investment Oversight Committee focus on the Group's philanthropic activity, being monetary donations made to charitable organisations and the contribution of staff time toward voluntary activities on behalf of the Board. The Committee is chaired by Laura Cha.

In 2015, following survey responses from employees, HSBC decided to add medical charities to the causes we support. In 2015, the Company contributed a total of $205m to charitable programmes and our employees volunteered 304,555 hours in community activities during the working day. The Company is also setting up an additional fund of $150m to support causes selected by the employees. It will support 140 charities across the world over three years. HSBC also made a one-off $62m donation to charities in Hong Kong from the sale of commemorative HK$150 bank notes.

There is no evidence to suggest that HSBC company reporting is in accordance with GFI nor had any external reporting review other than the audit on the financial data and the Forestry Policy. PIRC recommends that companies utilise the guidelines on best practice for reporting from parameters such as the GRI or IRI for effective report compilation. Validation from an external source highlights business transparency to shareholders and honest business management.

APPENDIX

LISTING RULE	ANALYSIS
1. There is a statement of how the company has applied the UK Corporate Governance Code's principles	Yes
2. There is a compliance statement specifying the code provisions with which the company has not complied with.	Yes
3. The board considers that the company complied with the Code in full for the whole year.	Yes
4. Is the UK Corporate Governance Code compliance statement complete	Yes

ADVISORS

ROLE	NAME
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