# Directors' report

# Board of directors

**Sir John Peace (66)**
*Chairman*

**Appointed:** Deputy Chairman in 2007, becoming Group Chairman in 2009. As previously announced, Sir John has indicated his intention to step down from the Board during the course of 2016.

**Experience:** Sir John has a strong financial services and retailing background, significant board and chairmanship experience, extensive international knowledge and exemplary governance credentials. He joined the board of GUS plc in 1997, of which Burberry and Experian were a part, becoming chief executive from 2000 until 2006. In 2002, Burberry was floated on the London Stock Exchange with Sir John as its chairman, a position he continues to hold. In 2006, Sir John became chairman of Experian, a position he held until he stepped down in 2014. Sir John is committed to supporting his local community and has a long-standing interest in education. He chaired the board of governors of Nottingham Trent University for 10 years, has been a trustee of the Djanogly City Academy in Nottingham since 1999, is Lord-Lieutenant of Nottinghamshire and a fellow of the Royal Society of Arts. Sir John has an honorary doctorate from the University of Nottingham and was knighted in 2011 for services to business and the voluntary sector.

**Committees** ⬢

**Bill Winters, CBE (54)**
*Group Chief Executive*

**Appointed:** June 2015

**Experience:** Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent. Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010 to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. Bill founded Renshaw Bay, an alternative asset management firm, in 2011 where he was chairman and CEO before stepping down on appointment to the Standard Chartered PLC Board. Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He is an independent non-executive director of Novartis International AG. He received a CBE in 2013.

**Mike Rees (60)**
*Deputy Group Chief Executive*

**Appointed:** August 2009, becoming Deputy Group Chief Executive in April 2014. As announced on 7 January 2016, Mike will retire from the Board on 30 April 2016.

**Experience:** Mike has extensive and wide-ranging international banking experience. He held several roles in finance at JP Morgan before joining Standard Chartered in 1990 as the Chief Financial Officer for Global Treasury, becoming the Regional Treasurer in Singapore, responsible for the South East Asia Treasury businesses. Mike was later appointed Group Head of Global Markets and Chief Executive, Wholesale Banking, responsible for all commercial banking products in addition to his responsibilities for global markets products. Mike was appointed Deputy Group Chief Executive in 2014. He has vast knowledge of the Group, our clients and our markets and provided valuable support to the Board and the Management Team in shaping and executing our new strategy. From October 2015, he also assumed responsibility for the Group's Brand and Marketing. Mike is a member of the International Advisory Board of Mauritius and the Mayor of Rome's business advisory council.

**Andy Halford (56)**
*Group Chief Financial Officer*

**Appointed:** July 2014

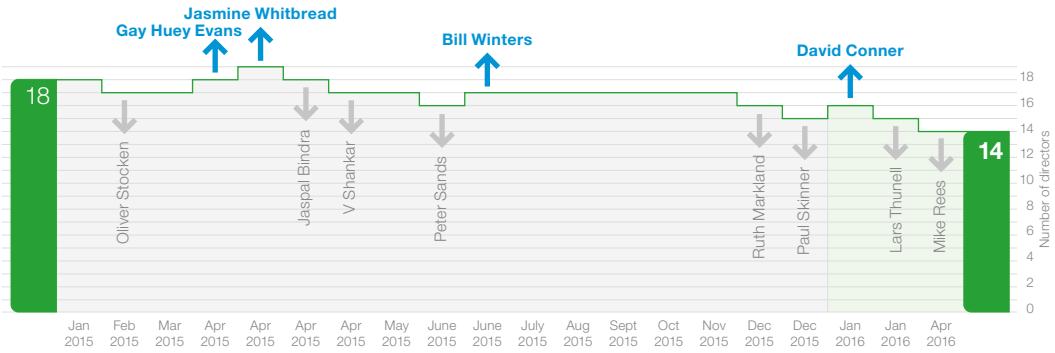
**Experience:** Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets. Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years. As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Global Sourcing functions. Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness.

**Committees**
- ■ Audit Committee
- ▲ Board Risk Committee
- ◆ Brand, Values and Conduct Committee
- ⬢ Governance and Nomination Committee
- ✱ Board Financial Crime Risk Committee
- ✚ Remuneration Committee

Committee Chair shown in green

## Board membership changes

The composition and size of the Board continued to transition during the year in line with our intention to reduce the size of the Board. The number of executive directors on the Board reduced from five to three, and following Mike Rees' retirement at the end of April 2016 will reduce further to two – with an overall Board size of 14 members.



**Naguib Kheraj (51)**
*Senior Independent Director*

**Appointed:** January 2014, becoming Senior Independent Director in June 2015.

**Experience:** Naguib has significant banking and finance experience. He began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in Wealth Management, Institutional Asset Management and Investment Banking. Naguib was also a Barclays' nominated non-executive director of Absa Group in South Africa, and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove. Naguib is a former non-executive director of NHS England and served as a senior advisor to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK. Naguib is currently a non-executive director of Rothesay Life, a specialist pensions insurer, and member of the investment committee of the Wellcome Trust. Naguib spends the majority of his time as a senior advisor to the Aga Khan Development Network and serves on the boards of various entities within its network.

**Committees** ■ ⬢ ▲ ✱ +

**David Conner (67)**
*Independent Non-Executive Director*

**Appointed:** January 2016

**Experience:** David has significant global banking experience, strong risk management credentials and an in-depth knowledge of Asian markets. David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and went on to hold a number of senior management Asian-based roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002. David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but remained as a non-executive director on the Board of OCBC Bank, before leaving the group in 2014. David is a non-executive director of GasLog Partners LP.

**Committees** ▲ ■ ✱

**Christine Hodgson (51)**
*Independent Non-Executive Director*

**Appointed:** September 2013

**Experience:** Christine has strong business leadership, finance, accounting and technology experience. Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997, where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe, before being appointed chair of Capgemini UK plc. Christine was previously a trustee of MacIntyre Care before stepping down in September 2015. She is a non-executive director and senior independent director at Ladbrokes plc and sits on the board of The Prince of Wales' Business in the Community. Christine is also chair of The Careers & Enterprise Company Limited, a government-backed company established to help inspire and prepare young people for the world of work.

**Committees** + ■ ◆ ⬢ ✱

**Jasmine Whitbread (52)**
*Independent Non-Executive Director*

**Appointed:** April 2015

**Experience:** Jasmine has significant business leadership experience as well as first-hand experience of operating across our markets. Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was appointed as Save the Children's first international chief executive officer, where she led the merger of 14 separate organisations into one management line of 15,000 people across seven regions and 60 countries, while aligning the federation behind a single mission and strategy. Jasmine stepped down from Save the Children in December 2015. She is a non-executive director of BT Group plc.

**Committees** ◆ + ⬢

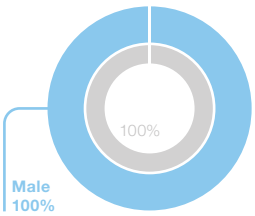
**Committees**
■ Audit Committee
▲ Board Risk Committee
◆ Brand, Values and Conduct Committee
⬢ Governance and Nomination Committee
✱ Board Financial Crime Risk Committee
+ Remuneration Committee
Committee Chair shown in green

## Board diversity

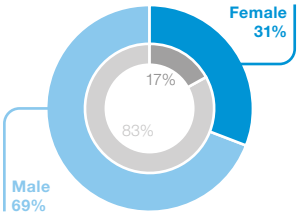
Our long history of operating in some of the world's most dynamic and diverse markets has given us a deep understanding of the benefits of a varied and diverse team. This diversity of experience, knowledge, skills and background is equally beneficial around the boardroom table providing a rich perspective of discussion. We are making progress in reaching our ambition of 25 per cent female representation on the Board by 2017. As at the end of December 2015, the Board comprised 23 per cent women, and following recent Board changes at the beginning of 2016, women make up 20 per cent of the Board as at 23 February 2016.

### Gender diversity

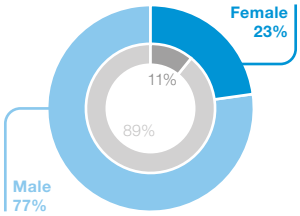
**Executive**




**Non-executive**




**Board**




As at end 2015 As at end 2014

**Simon Lowth (54)**
*Independent Non-Executive Director*

**Appointed:** May 2010

**Experience:** Simon has significant expertise in finance, capital allocation, portfolio, and risk management and strategy. Simon spent 15 years with the global management consultancy, McKinsey & Company, latterly as a senior director responsible for the firm's UK industrial practice, where he advised leading multi-national companies on a wide range of strategic, financial and operational issues. He joined Scottish Power PLC in 2003 as executive director, corporate strategy and development, becoming finance director two years later. Simon was chief financial officer of AstraZeneca PLC from 2007 until 2013, when he was appointed chief financial officer and executive director at BG Group. Simon stepped down from BG Group in February 2016, following its takeover by Royal Dutch Shell.

**Committees** ✱

**Om Bhatt (64)**
*Independent Non-Executive Director*

**Appointed:** January 2013

**Experience:** Om has extensive banking, financial services and leadership acumen, with deep knowledge and experience across India, one of our largest markets. Om had a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, where he held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's Washington and London offices and held general management roles between 2004 and 2006, becoming managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group until he stepped down in 2011. Om was chairman of the Indian Banks' Association and was previously an independent non-executive director of Oil and Natural Gas Corporation. Om is an independent non-executive director of Hindustan Unilever Ltd, Tata Steel, Tata Consultancy Services and governor of the board of the Center for Creative Leadership.

**Committees** ▲

**Dr Kurt Campbell (58)**
*Independent Non-Executive Director*

**Appointed:** June 2013

**Experience:** Kurt has a wealth of experience of the US political environment and significant experience of some of our key markets, notably across Asia. Kurt has served in several capacities in the US government, including deputy assistant secretary of defence for Asia and Pacific Affairs and director on the National Security Council Staff in the White House. Kurt was founder and chairman of StratAsia, a strategic advisory firm focused on Asia. From 2009 to 2013, Kurt served as the US Assistant Secretary of State for East Asian and Pacific Affairs. He was widely credited as being a key architect of the 'pivot to Asia' policy. Kurt was a central figure in advancing the US-China relationship, building stronger ties to Asian allies, and in the opening up of Myanmar. Previously, Kurt was the chief executive officer and co-founder of the Center for a New American Security and associate professor at Harvard's John F Kennedy School of Government. He is chairman and chief executive officer of The Asian Group LLC, a strategic advisory and investment group specialising in the Asia Pacific region.

**Committees** ◆

**Dr Louis Cheung (52)**
*Independent Non-Executive Director*

**Appointed:** January 2013

**Experience:** Louis has broad financial services and investor relations credentials, particularly in a Greater China context. Louis was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice prior to joining Ping An Insurance Group in 2000. Louis worked in several senior roles at Ping An, including chief financial officer, before becoming group president in 2003 and executive director from 2006 to 2011. Louis is currently managing partner of Boyu Capital Advisory Co, a China-focused private equity investment firm, independent non-executive director of Fubon Financial Holding Company, and a Fellow and council member of the Hong Kong Management Association.

**Committees** ✚

**Committees**
- ■ Audit Committee
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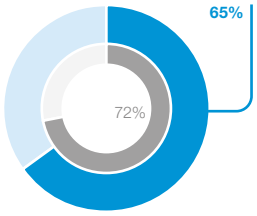
- ✱ Board Financial Crime Risk Committee
- ✚ Remuneration Committee

Committee Chair shown in green

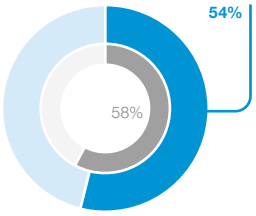
## Experience

Our Board is comprised of directors with a broad range of skills, experience, backgrounds and perspectives. As at the end of December 2015, eleven directors on the Board have lived and/or worked across our key markets of Asia, Africa or the Middle East, and over half of the independent non-executive directors have some combination of banking, finance, risk and accounting experience.

**International**
(lived and/or worked across Asia, Africa, Middle East)




**Banking/Finance/Risk/Accounting**
(experience among independent non-executive directors)




As at end 2015 · As at end 2014

**Dr Byron Grote (67)**
*Independent Non-Executive Director*

**Appointed:** July 2014

**Experience:** Byron has broad commercial, financial and international experience. From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was chief executive officer of BP Chemicals and managing director of BP plc in 2000, with regional group-level accountability for BP's activities in Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013 with responsibility for the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV until he stepped down in April 2015. He is currently a non-executive director of Anglo American plc, Tesco PLC and sits on the supervisory board at Akzo Nobel NV. He is also a member of the European Audit Committee Leadership Network and an emeritus member of the Cornell Johnson School Advisory Council at Cornell University.

**Committees** ■ +

**Gay Huey Evans, OBE (61)**
*Independent Non-Executive Director*

**Appointed:** April 2015

**Experience:** Gay has extensive banking and financial services experience with significant commercial and UK regulatory and governance experience. She spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citi, including head of governance, Citi Alternative Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was previously a non-executive director at Aviva plc and the London Stock Exchange Group plc. Gay is currently a non-executive director of ConocoPhillips and Bank Itau BBA International plc, and is deputy chair of the Financial Reporting Council. She received an OBE for services to financial services and diversity in 2016.

**Committees** ▲ ✱[1]

1. Gay will join the Board Financial Crime Risk Committee on 1 March 2016

**Dr Han Seung-soo, KBE (79)**
*Independent Non-Executive Director*

**Appointed:** January 2010

**Experience:** Dr Han is a distinguished economist and has a strong geo-political background, with valuable knowledge of Asia and its economies. Dr Han is a former prime minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs, and industry and trade before serving as prime minister from 2008 to 2009. He also served as Korean ambassador to the United States, chief of staff to the president, president of the 56th Session of the United Nations General Assembly, special envoy of the UN Secretary-General on Climate Change, and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting. Dr Han sits on a number of advisory boards and is currently the United Nations Secretary-General's Special Envoy for Disaster Risk Reduction and Water, the founding chair of the UN High-Level Experts Panel on Water and Disaster, is the co-chair of the Water Advisory Group at the Asian Development Bank and co-chair of the International Finance Forum. In addition, he is a non-executive director at Seoul Semiconductor Inc and Doosan Infracore Co Ltd, and is a director on the Yonsei University Foundation Board of Trustees.

**Committees** ◆

**Liz Lloyd, CBE (44)**
*Group Company Secretary*

**Appointed:** January 2016

**Experience:** Liz spent her early career in public policy in the UK government and held a number of roles as special advisor in Number 10 Downing Street on home affairs, Africa and climate change to the then-UK Prime Minister, Rt Hon Tony Blair, a position she held until 2005 when she was appointed deputy chief of staff. Liz joined Standard Chartered in 2007, initially within Group Compliance, focused on regulatory risk and regulatory relationships, before being appointed as Group Head of Public Affairs, responsible for coordinating the Group's policies and positioning on all political and regulatory matters. In 2013, she was appointed Chief Executive Officer of Standard Chartered Bank Tanzania, a position she held until October 2015. She was elected vice-chair of the Tanzania Bankers' Association in 2015. She received a CBE in 2008.

**Committees**
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Committee Chair shown in green

## Non-executive director tenures

As we continue to evolve and refresh the composition of the Board, we remain mindful of the need to ensure that the tenure of our non-executive directors is well balanced.

**Further details on the work of the Governance and Nomination Committee can be found on page 93.**


As at 23 February 2016

# Chairman's governance overview

> "As a Board, we spent a great deal of time reviewing and discussing all aspects of the Strategic Review which culminated in the new strategy announced in November 2015"
>
> **Sir John Peace,** *Chairman*

**Dear Shareholder**

As I mentioned earlier in this report, 2015 was a challenging year. While our results were poor, they are set against a backdrop of continuing geo-political and economic headwinds and volatility across many of our markets. 2015 has also been in many ways a watershed, when we embarked on a clear path and revised strategy under a new Management Team led by Bill Winters, prioritising returns for shareholders and allocating capital and investment capacity to areas where we have a long-term competitive advantage and can generate attractive returns.

As a Board, we spent a great deal of time reviewing and discussing all aspects of the strategic review which culminated in the new strategy, announced in November 2015. Further details on the Board's oversight through the formation of the new strategy is set out on page 68. We believe that the new strategy will enable us to weather current market conditions and to reposition the Group for improved and sustainable performance. Our markets remain attractive through the medium to long term, and we remain well positioned to serve wealth creation in Asia, Africa and the Middle East.

I would like to thank shareholders for their support of the rights issue, which was a key enabler of the new strategy and ensures that the Group is well capitalised, providing a strong foundation for the future. In light of the new strategy and the Board's commitment to balancing returns to shareholders with investment in the franchise in order to support future growth, we took the difficult decision to pay no final dividend in 2015. The Board recognises the importance of dividends to our shareholders and therefore this decision was not taken lightly.

During the year, we have made further changes to the composition of our independent non-executive directors as part of the ongoing Board succession plan. This was aimed at streamlining the Board while ensuring a balance of tenure, diversity, geographic knowledge and industry experience. Additionally, after 26 years with the Group, Mike Rees has taken the decision to retire and will step down from the Board at the end of April 2016. Details of changes to our Board can be found on page 71. I would also like to welcome David Conner, who joined the Board on 1 January 2016, and Liz Lloyd, who replaced Annemarie Durbin as Group Company Secretary from 1 January 2016. On behalf of the Board, I would like to thank Mike, Ruth Markland, Paul Skinner, Lars Thunell and Annemarie for their significant contributions to the Group.

These changes, together with the appointment of Gay Huey Evans and Jasmine Whitbread in April last year means that the Board will consist of the Chairman, two executive directors and 11 independent non-executive directors. I would also like to mention the four external advisor members who sit on the Board Financial Crime Risk Committee and add further perspective with a deep knowledge of financial crime compliance.

Diversity is an important factor for us as we address Board succession, and in 2015, we made significant progress in increasing the representation of women on our Board to 20 per cent, up from 11 per cent at the end of 2014. Furthermore, the proportion of women represented at senior positions below the Board is significantly higher.

As I indicated at the start of 2015, it remains my intention to step down from the Board during the course of 2016. Until then, I will continue to focus on the strategic transformation, providing all possible support to Bill and the Management Team, and providing continuity at a time of significant change.

In addition to strategy, one of the most important roles of the Board is setting the right tone and culture of the organisation, and we have considered how to sustain our values and ensure we have a strong culture supportive of our strategy during this time of significant change. The Board and its committees have focused on many aspects of culture throughout the year, from leadership, performance, conduct and remuneration, to risk taking and risk tolerance. One feature has been a focus on well-defined individual accountability, which aligns very well with the new Senior Managers Regime commencing in 2016 in the UK.

The Group is one of the founder members of the Banking Standards Board (BSB), established in April 2015. We place significant importance on all aspects of banking standards and the frameworks and culture needed to underpin, sustain and grow healthy behaviours, professional expertise and competence. The Group engaged with the BSB as it commenced its analysis and assessment of the Group's culture and conduct today, and this will feed into our own work in 2016.

Despite the broad range of uncertainties and challenges ahead, many of which are outside our control, I am confident that the actions we have taken as a Board ensures that the Management Team is well-positioned to deliver against the comprehensive actions and revised strategy, and that we are able to continue to adapt to the changing external environment and restore the Group's performance to realise fully the opportunities present across our markets.

**Sir John Peace**
*Chairman*

# Corporate governance

Supports decisions and guides behaviours across the Group

## Governance assurances and disclosures

Throughout this report we have set out the required governance and regulatory assurances and disclosures. As in previous years, we have sought to give an insight and a genuine understanding of the importance good governance plays across the Group, as well as demonstrate how it supports decisions and guides behaviours within Standard Chartered.

### Code compliance

We apply the provisions of the UK Corporate Governance Code 2014 (the 'Code' ). The directors confirm that the Group has complied with all the provisions set out in the Code during the year ended 31 December 2015, subject to Peter Sands not seeking re-election at the 2015 Annual General Meeting (AGM). This was a conscious decision following the announcement, made prior to the AGM, that Peter would step down from the Board on 10 June 2015, shortly after the AGM.

We have complied with the code provisions of the Hong Kong Corporate Governance Code (Appendix 14 of the Hong Kong Listing Rules), save that the Board Risk Committee, instead of the Audit Committee, is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems (Code provision C.3.3 (f), (g) and (h) of Appendix 14). The Group's governance structure of a separate Audit Committee and Board Risk Committee complies with recent amendments to the above provisions which apply to the Group's accounting period from 1 January 2016.

Throughout this corporate governance report we have provided a narrative statement of how governance operates within the Group and our application of the principles set out in the Hong Kong Listing Rules and the main principles of the Code.

The Group confirms that it has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules. Having made specific enquiry of all directors, the Group confirms that all directors have complied with the required standards of the adopted code of conduct.

**Copies of the Code and the Hong Kong Corporate Governance Code can be found at frc.org.uk and hkex.com.hk respectively**

To the extent applicable, information required by paragraphs 13(2)(c), (d), (f), (h) and (i) of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is available in Other disclosures on pages 142 to 150.

## The role of the Board and committees

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The Board sets the strategic direction of the Group, approves the strategy and takes the appropriate action to ensure that the Group is suitably resourced to achieve its strategic aspirations. The Board considers both the impact of its decisions and its responsibilities to all the Group's stakeholders, including the Group's employees, shareholders, regulators, suppliers, the environment and the communities in which it operates.

The Board delegates certain responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. The Board also delegates authority for the operational management of the Group's business to the Group Chief Executive for further delegation by him in respect of matters which are necessary for the effective day-to-day running and management of the business.

Details of the Group's Management Team can be found on pages 10 to 12.

With the exception of the Governance and Nomination Committee, which in keeping with the provisions of the Code, is chaired by the Group Chairman, all the Board committees are made up of independent non-executive directors and play an important role in supporting the Board. In addition to comprising four[1] independent non-executive directors, the Board Financial Crime Risk Committee's membership includes four independent external advisor members.

**The full schedule of matters reserved for the Board's decision along with written terms of reference for the Board's committees can be viewed at sc.com**

1. The number of independent non-executive directors will revert to five following Gay Huey Evans' appointment to the Committee on 1 March 2016

**Standard Chartered PLC Board**

**Audit Committee**
Oversight and review of financial, audit and internal control issues. More details on page 79.

**Board Risk Committee**
Oversight and review of fundamental risks including credit, market, capital, liquidity, operational, country cross-border and pension risks. More details on page 85.

**Brand, Values and Conduct Committee**
Oversight of the positioning of the Group's brand, conduct, culture and values, reputational risk, government and regulatory relations, and sustainability issues. More details on page 89.

**Remuneration Committee**
Oversight and review of remuneration, share plans and other incentives. More details on page 99.

**Governance and Nomination Committee**
Oversight and review of Board and executive succession, overall Board effectiveness and governance issues. More details on page 93.

**Board Financial Crime Risk Committee**
Oversight and review of all financial crime compliance matters. More details on pages 96.

## Board roles and key responsibilities

### Chairman
**Sir John Peace**
Responsible for leading the Board and its overall effectiveness and governance, promoting high standards of integrity across the Group and ensuring effective communication between the Board, management, shareholders and wider stakeholders.

### Group Chief Executive
**Bill Winters**
Responsible for the management of all aspects of the Group's businesses, developing the strategy in conjunction with the Chairman and the Board, and leading its implementation.

### Senior Independent Director
**Naguib Kheraj**
Provides a sounding board for the Chairman and discusses concerns that are unable to be resolved through the normal channels or where such contact would be inappropriate with shareholders and other stakeholders. Chairs the Governance and Nomination Committee when considering succession of the Chairman.

### Independent non-executive directors
**See pages 63 to 65**
Provide an independent perspective, constructive challenge and monitor the performance and delivery of the strategy within the risk and controls set by the Board.

**The roles of the Chairman and Group Chief Executive are quite distinct from one another and are clearly defined in detailed role descriptions which can be viewed at sc.com**

## Board meetings

In 2015, the Board held nine scheduled and three ad hoc meetings, including two meetings outside the UK: in Washington, DC and Dwelhi. To enable the Board to use its time most effectively, it maintains a scheduled forward programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any particular agenda to ensure that the Board can focus on the key matters at the appropriate time. The Board also schedules a number of informal sessions and interactions, which allows Board members to discuss specific areas of the business or external environment with members of the Management Team and/or external advisors. Generally, members of the Management Team and other senior executives are invited to attend part of the meetings to ensure effective interaction with the Board. During the year, the Chairman met privately with the Senior Independent Director and the independent non-executive directors on several occasions to assess their views and discuss matters arising.

Performance against delivery of the agreed key financial priorities is reviewed at every meeting with particular reference to the detailed Group management accounts. The Group Chief Executive, Deputy Group Chief Executive and Group Chief Financial Officer comment on the market and current trading at each meeting, and present comparative data and customer insight. In addition, the Group Chief Risk Officer periodically attends meetings to update the Board on risk management.

During the year, the Board spent significant time and focus conducting an in-depth review of the Group's strategy. An overview of the process taken is set out on this page.

## Strategic Review process and timeline

### March – May 2015

Bill Winters visited a number of our markets, meeting with many of our shareholders, clients, employees and other stakeholders to gain a deeper understanding of the Group and the challenges and opportunities that exist.

### Mid-June 2015

Bill was appointed as Group Chief Executive and announced a review of the Group's organisation, structure and strategy.

This review commenced with a two-day strategy off-site session in June 2015, at which a number of building blocks for the forward-looking strategy were considered and agreed.

These formed the body of work for the Strategic Review of the Group, and set the strategic direction for the Group. Some of these building blocks included:

- A thorough review and understanding of the competitive environment of the Group and the dynamics at play
- A deep understanding of our clients' needs and behaviours, our product and service capabilities, and required changes
- A detailed review of our geographic footprint and necessary actions
- The development of the Group's digital agenda
- A comprehensive review of the Group's organisational structure, and its processes and controls
- A review of our capital position and requirements, and our cost and investment priorities

### Mid-July 2015

Announced a simplification of the Group's organisational structure and the appointment of the new Management Team, who will execute the new strategy.

### September 2015

The new Management Team's responsibilities included formulating a plan to address the future performance of the Group by the end of 2015. The building blocks of the new strategy were presented to the Board by the Management Team, and discussed at length, leading to further refinement.

### October to November 2015

The plans were developed through the work of the Strategic Review and the new strategy came back to the Board for discussion on a number of occasions through the Autumn. The outcome of the Strategic Review, which included raising additional capital through the rights issue was announced on 3 November 2015. Further details on the new strategy can be found in Our business: our strategy and business model on page 13.

In addition, throughout 2015, the Board's programme included the following items, some of which were considered at each meeting and some reviewed periodically throughout the year.

| Board activities 2015 | |
|---|---|
| **Strategy** | • See page 68 for an outline of the Board's Strategic Review |
| **Budget and performance oversight** | • Reviewed and scrutinised the strategic and operational performance of the business across client segments, product groups and geographies<br>• Monitored and assessed the strength of the Group's capital and liquidity positions<br>• Considered, on a regular basis, the management actions taken around risk-weighted assets, costs reductions and business disposals, aimed at strengthening the Group's Common Equity Tier 1 ratio<br>• Took the decision to re-base the 2015 interim dividend and recommended no final dividend be paid for 2015<br>• Discussed the 2016 budget, reflecting the first year of the five-year strategy, including assessment against risk tolerance thresholds<br>• Discussed periodic updates from Investor Relations on the share price, performance metrics, register activity, and investor and analyst sentiment |
| **External environment** | • Received internal and external briefings and input across a range of topics, including the geo-political and regulatory environment, and the macroeconomic landscape<br>• Considered the Group's response and crisis management actions in response to a number of incidents in our markets, including the Nepal earthquake; the terrorist bombing in Bangkok; and the series of explosions at a container storage station in Tianjin |
| **Shareholder and stakeholder relationships** | • Engaged with investors throughout the year and responded to retail shareholders' questions at the Annual General Meeting<br>• Held a series of events and meetings in New York and Washington, DC to strengthen relationships with US policy-makers, regulators and authorities<br>• Engaged with key clients and customers as part of the Board's overseas visits, including participation in a number of community activities and projects<br>• Provided input into the decision to extend the Group's sponsorship of Liverpool Football Club<br>• Engaged with the Prudential Regulation Authority (PRA, one of the Group's UK's lead regulators) on the findings of the 2015 Periodic Summary Meeting letter<br>• Discussed the views and concerns of institutional shareholders |
| **Risk and governance** | • Received regular risk reports from the Group Chief Risk Officer<br>• Evaluated and approved updates to the Group's Risk Tolerance Statement and the operational and financial top risks<br>• Discussed specific conduct matters and potential outcomes and impacts<br>• Reviewed and discussed the 2015 Bank of England stress test submission and results<br>• Reviewed and approved the Group's approach to demonstrating individual accountability under the UK Banking Reform Act<br>• Reviewed and approved the compliance programme established to meet the requirements of the US Volcker Rule |
| **People, culture and values** | • Considered the composition of the Board and its committees in the context of our Board succession plan, and, on the recommendation of the Governance and Nomination Committee, approved the appointment of Naguib Kheraj as the new Senior Independent Director and David Conner as an independent non-executive director<br>• Reviewed the Group's new Management Team and organisational structure, noting its impact on people across the organisation<br>• Approved the appointment of the new Group Chief Risk Officer, Group Head of Internal Audit and Group Company Secretary<br>• Received updates on the Chairman's succession plan<br>• Discussed the importance of a robust conduct culture throughout the Group, including an overview of the Group's Conduct Programme<br>• Assessed the outcome of the 2015 Board effectiveness review and approved the 2016 Action Plan<br>• Endorsed the refresh of the Group's Code of Conduct, to which every employee was requested to recommit |

**The full schedule of matters reserved for the Board, together with the Board committees' terms of reference, can be viewed at sc.com**

## Board composition and attendance

| Name of director | Board Scheduled | Board Ad hoc | Audit Committee Scheduled | Board Risk Committee Scheduled | Board Risk Committee Ad hoc | Remuneration Committee Scheduled | Remuneration Committee Ad hoc | Governance and Nomination Committee Scheduled | Governance and Nomination Committee Ad hoc | Brand, Values and Conduct Committee Scheduled | Board Financial Crime Risk Committee Scheduled | Total attendance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | | | | | |
| Sir John Peace[1] | 9/9 | 3/3 | – | – | – | – | – | 4/4 | 3/3 | – | – | **100%** |
| **Group Chief Executive** | | | | | | | | | | | | |
| W T Winters (appointed 10 June 2015) | 5/5 | 2/2 | – | – | – | – | – | – | – | – | – | **100%** |
| **Executive Directors** | | | | | | | | | | | | |
| A M G Rees | 9/9 | 3/3 | – | – | – | – | – | – | – | – | – | **100%** |
| A N Halford | 9/9 | 3/3 | – | – | – | – | – | – | – | – | – | **100%** |
| **Independent Non-Executive Directors** | | | | | | | | | | | | |
| O P Bhatt | 9/9 | 3/3 | – | 6/6 | 1/1 | – | – | – | – | – | – | **100%** |
| Dr K M Campbell[2] | 7/9 | 3/3 | – | – | – | – | – | – | – | 4/5 | – | **82%** |
| Dr L Cheung[3] | 9/9 | 2/3 | – | – | – | 5/5 | 3/3 | – | – | – | – | **95%** |
| D P Conner (appointed 1 January 2016) | N/A | N/A | N/A | N/A | N/A | – | – | – | – | – | N/A | **N/A** |
| Dr B E Grote | 9/9 | 3/3 | 6/6 | – | – | 3/3 | N/A | – | – | 3/3 | – | **100%** |
| Dr Han Seung-soo, KBE[4] | 9/9 | 1/3 | – | – | – | – | – | – | – | 5/5 | – | **88%** |
| C M Hodgson[5] | 8/9 | 2/3 | 6/6 | – | – | 5/5 | 3/3 | 3/3 | 1/1 | 5/5 | 4/4 | **95%** |
| G Huey Evans, OBE (appointed 1 April 2015) | 6/6 | 2/2 | – | 4/4 | N/A | – | – | – | – | – | – | **100%** |
| N Kheraj[6] | 9/9 | 3/3 | 6/6 | 6/6 | 1/1 | 1/1 | N/A | 4/4 | 1/3 | – | 4/4 | **95%** |
| S J Lowth[7] | 6/9 | 2/3 | – | – | – | – | – | – | – | – | 4/4 | **75%** |
| J M Whitbread (appointed 1 April 2015) | 6/6 | 2/2 | – | – | – | 3/3 | N/A | – | – | 2/2 | – | **100%** |
| **Directors who stepped down in 2015/2016** | | | | | | | | | | | | |
| J S Bindra (stepped down 30 April 2015) | 3/3 | 1/1 | – | – | – | – | – | – | – | – | – | **100%** |
| R Markland (stepped down 31 December 2015) | 9/9 | 3/3 | 2/2 | – | – | 5/5 | 3/3 | 1/1 | 2/2 | – | 4/4 | **100%** |
| P D Skinner, CBE[8] (stepped down 31 December 2015) | 8/9 | 2/3 | – | 6/6 | 1/1 | 5/5 | 3/3 | 4/4 | 3/3 | 5/5 | – | **95%** |
| P A Sands (stepped down 10 June 2015) | 4/4 | 1/1 | – | – | – | – | – | – | – | – | – | **100%** |
| V Shankar (stepped down 30 April 2015) | 3/3 | 1/1 | – | – | – | – | – | – | – | – | – | **100%** |
| O H J Stocken, CBE (stepped down 28 February 2015) | 2/2 | 1/1 | – | 2/2 | N/A | – | – | – | – | – | – | **100%** |
| Dr L H Thunell[9] (stepped down 31 January 2016) | 8/9 | 3/3 | 6/6 | 6/6 | 1/1 | – | – | 3/4 | 3/3 | – | 1/4 | **86%** |

1. Sir John did not chair any meetings of the Governance and Nomination Committee when considering matters relating to Chairman's succession
2. Dr Kurt Campbell was unable to attend one scheduled Board meeting due to a prior commitment and one scheduled Board and Brand, Values and Conduct Committee meeting for medical reasons
3. Dr Louis Cheung was unable to attend one ad hoc Board meeting, arranged at short notice, due to another business commitment
4. Dr Han was unable to attend two ad hoc Board meetings, arranged at short notice, due to the time of one meeting and the other due to a prior commitment
5. Christine Hodgson was unable to attend one ad hoc meeting, arranged at short notice, due to a prior commitment and one scheduled Board meeting because of a delayed flight
6. Naguib Kheraj was recused from two ad hoc Governance and Nomination Committee meetings due to a potential conflict
7. Simon Lowth was unable to attend three scheduled Board meetings and one ad hoc Board meeting, arranged at short notice, due to other business commitments
8. Paul Skinner was unable to attend one scheduled Board meeting and one ad hoc Board meeting, arranged at short notice, due to other business commitments
9. Dr Lars Thunell was unable to attend one scheduled Board meeting, one scheduled Governance and Nomination Committee meeting and three scheduled meetings of the Board Financial Crime Risk Committee due to prior commitments

In 2015, the Group held one general meeting, our Annual General Meeting, on 6 May 2015, which was attended by all of the directors. All directors, with the exception of Peter Sands (as highlighted on page 67) were proposed for annual (re)election in 2015 and all who stood for (re)election were successfully (re)elected

## Independence of directors

When determining whether a non-executive director is independent, the Board considers each individual against the criteria set out in the UK Corporate Governance Code (the 'Code') and also considers how they conduct themselves in Board meetings, including how they exercise judgement and independent thinking. In line with the Code, Dr Han and Simon Lowth's re-appointment were subject to particular review and scrutiny, given they will have both served beyond six years in 2016. The Board is satisfied that all of its non-executive directors bring robust independent oversight and continue to demonstrate independence.

## Board composition

The Board's composition, structure and size underwent further significant change during 2015 and into 2016. The changes will result in a smaller Board of 14 directors at the end of April 2016, consisting of the Chairman, two executive directors and 11 independent non-executive directors. This ongoing change in the Board's composition ensures we maintain a combination of broad-based banking, finance, risk and accounting skills and experience, representation from across our key markets, and a diversity of perspective. Details on the diverse composition of the Board and biographical details of the directors are set out on pages 62 to 65, including details of the membership of the Board's Committees.

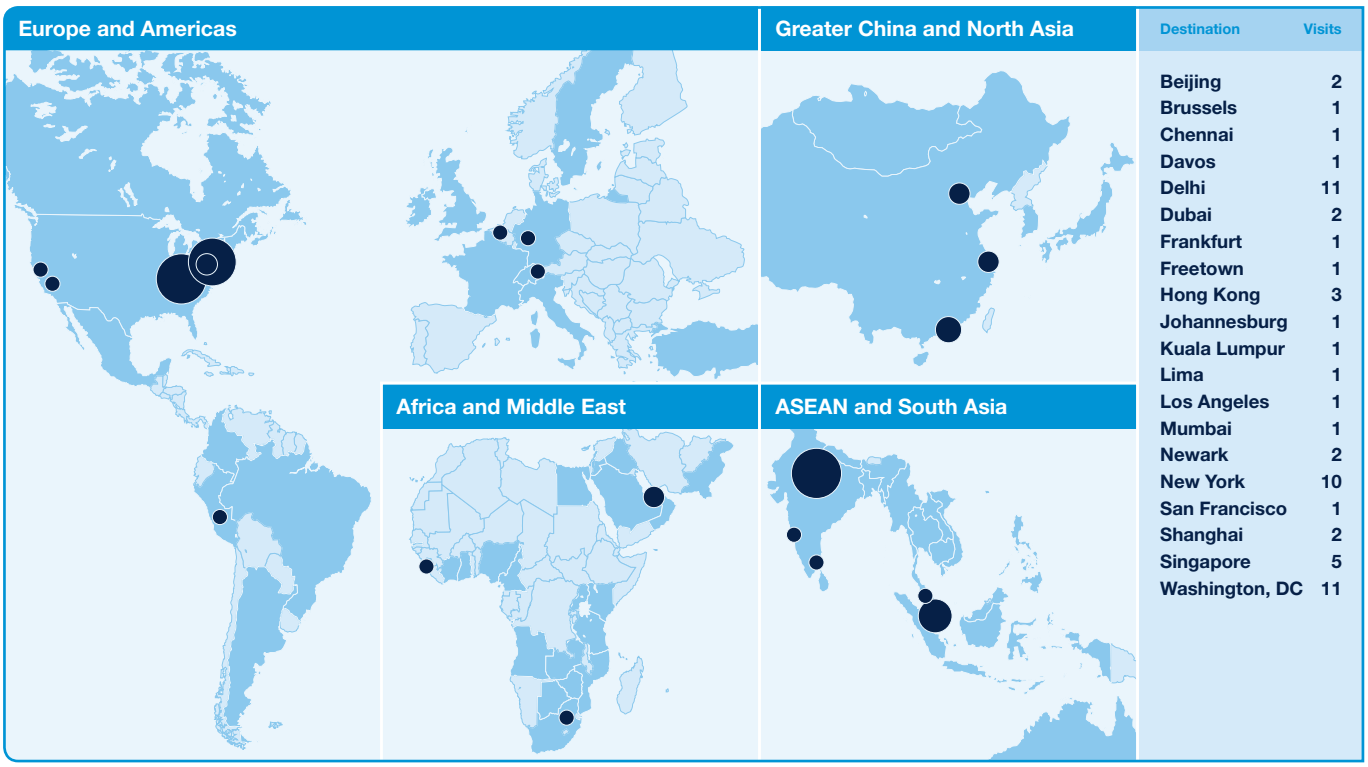
Some of the changes which took effect through 2015 were highlighted in last year's report, including the retirement of three long-standing independent non-executive directors, Oliver Stocken, who stepped down in February 2015, Ruth Markland and Paul Skinner, who stepped down on 31 December 2015, and the appointment of two new independent non-executive directors, Gay Huey Evans and Jasmine Whitbread, who joined the Board in April 2015. Both Gay and Jasmine have received detailed and tailored inductions during 2015. More details on director inductions can be found on page 72.

Jaspal Bindra and V Shankar, both Group Executive Directors, stepped down from the Board on 30 April 2015. Bill Winters succeeded Peter Sands as Group Chief Executive on 10 June 2015, having joined the Group in May 2015. In addition, on 7 January 2016 we announced that Mike Rees, Deputy Group Chief Executive, will step down from the Board on 30 April 2016 and retire on 31 December 2016, after 26 years with the Group.

On 21 December 2015, we announced that Dr Lars Thunell would step down from the Board on 31 January 2016. Lars had been an independent non-executive director since November 2012 and was the Chair of the Board Risk Committee. David Conner joined the Board as an independent non-executive director on 1 January 2016 and was appointed Chair of the Board Risk Committee on 1 February 2016. David brings significant global banking experience, strong risk management credentials, and an in-depth understanding and knowledge of the Asian markets.

In 2015, we announced that Sir John Peace intends to step down from the Board during the course of 2016, having led the Board as Chairman since 2009. Until then, Sir John will continue to focus on the strategic transformation, providing support to Bill and the Management Team and continuity at a time of significant change. The process to identify a new Chairman is underway. The Governance and Nomination Committee has oversight and Naguib Kheraj, who succeeded Ruth Markland as Senior Independent Director on 16 June 2015, chairs the Committee when considering matters concerning the Chairman's succession. More details on the Chairman's succession can be found in the Governance and Nomination Committee report on page 93.

**Independent non-executive director, Board Financial Crime Risk Committee external advisor members and Chairman's visits to our markets in 2015**




| Destination | Visits |
|---|---|
| Beijing | 2 |
| Brussels | 1 |
| Chennai | 1 |
| Davos | 1 |
| Delhi | 11 |
| Dubai | 2 |
| Frankfurt | 1 |
| Freetown | 1 |
| Hong Kong | 3 |
| Johannesburg | 1 |
| Kuala Lumpur | 1 |
| Lima | 1 |
| Los Angeles | 1 |
| Mumbai | 1 |
| Newark | 2 |
| New York | 10 |
| San Francisco | 1 |
| Shanghai | 2 |
| Singapore | 5 |
| Washington, DC | 11 |

The Board strongly believes in the importance of an open and challenging, yet cohesive and collaborative, culture. This culture of transparency ensures that independent non-executive directors have unfettered access to management and information, and enables us to maintain a high level of governance across the Group. The exposure our independent non-executive directors have to the Group in general is demonstrated in part through the visits that they make throughout our markets, both to gain an on-the-ground understanding of the opportunities and risks we face and to validate the new strategy. In addition, the overseas Board meeting programmes also provide a significant opportunity for the Board to meet with senior management, clients and our employees throughout our network. During 2015, the Chairman, our independent non-executive directors and the external advisor members to the Board Financial Crime Risk Committee made 59 visits across our footprint, which included two overseas Board meetings. In addition, there is an open invitation for the chairs of our subsidiary companies to meet with the Board in the UK.

## External directorships and other business interests

We support Board members taking external directorships and other outside business interests and recognise the benefits that greater boardroom exposure gives our directors. However, we closely monitor the number of directorships our directors take on to satisfy ourselves that all of our Board members are compliant with the PRA requirements. These impose a limit on the number of directorships both executive and independent non-executive directors are permitted to hold. Details of the directors' external directorships can be found in their biographies on pages 62 to 65.

Before committing to an additional appointment, directors confirm the existence of any potential or actual conflicts; that the role will not breach their limit as set out in the PRA rules; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director of the Group. In addition, the Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. Of our executive directors, Andy Halford is a non-executive director of Marks and Spencer Group plc. Bill Winters is a non-executive director of Novartis International AG, listed on the Swiss stock exchange.

## Time commitment

We expect our independent non-executive directors to commit sufficient time to discharge their responsibilities. In general, we estimate that each independent non-executive director spent approximately 35 to 50 days on Board-related duties, and considerably more for those who chair or are members of multiple committees. This year's strategy discussions and additional Board meetings demonstrated the independent non-executive directors' ability to provide additional time commitment, at short notice, when required.

## Director induction

Each newly appointed Board director receives an extensive, formal and tailored induction programme to enable them to function effectively as quickly as possible, while building a deep understanding of the business and our markets. Each induction typically consists of a combination of: meetings with both executive and independent non-executive directors as well as the Group Company Secretary; briefings from senior managers across the Group; the opportunity to attend key management meetings and to meet with major investors and clients; and visits to key markets across our footprint. The induction programmes are typically completed within the first six to nine months of a director's appointment. They are regularly reviewed and take into account director's feedback to ensure they are continually improved. In line with this tailored approach, the three new directors who joined the Board during the year; Bill Winters, Gay Huey Evans and Jasmine Whitbread, each received comprehensive inductions. Bill Winters spent several weeks prior to joining the Board meeting and listening to shareholders, clients and other stakeholders' views to get an in-depth understanding of how the business is perceived. He also travelled extensively around our markets, visiting branches and offices and meeting as many people as possible to gain a greater understanding of the Group's strengths, the challenges it is facing as well as an insight into the culture and values of the organisation.

Jasmine and Gay's induction programmes each consisted of over 50 meetings with a range of individuals including executive and independent non-executive directors, committee chairs, senior leaders and management groups from across the Group.

### Jasmine Whitbread's induction programme

Mindful of Jasmine's experience and knowledge of operating internationally, she met with management and staff in a number of our markets to get a deeper understanding of the business in country. In addition, she also received a series of detailed introductory briefings to banking, which included sessions on: sources of income; geographic diversity; client distribution, and traditional and modern banking services.

To illustrate the breadth and depth of the process, and the tailored nature of the programme, an outline of Jasmine's induction programme is set out below.

| Independent non-executive director: Induction programme | Overseas visits (as part of the overseas Board) | Overseas visits (independent and onward visits) |
|---|---|---|
| • One-to-one meetings with the Chairman, Group Company Secretary, and executive and independent non-executive directors<br>• Briefing from external legal advisors: directors' duties, responsibilities and obligations<br>• Meeting with the Group's statutory auditors<br>• Meeting with Group Head, Commercial & Private Banking Clients; Group Chief Risk Officer; Group General Counsel; Global Head, Regulatory Affairs; Global Head of Tax; Group Head of Internal Audit; Group Chief Operating Officer; Group Head, Corporate Affairs; Group Head of Technology; Group Treasurer; Head of Investor Relations; Chief Executive Officer UK/Europe; Global Head, Markets, Wealth & Securities, Group Technology & Operations<br>• Meeting with Group Company Secretary on the Group's governance structure and policies<br>• Briefing on the Group's commitment to Project Everyone and the Sustainable Development Goals<br>• Briefing on the macroeconomic environment<br>**Introduction to Banking**<br>• Briefings on: the global banking system; financial statements focus for banks; capital<br>**Meetings with the Regulator**<br>• Prudential Regulatory Authority continuous assessment meeting<br>• Meeting with the Financial Conduct Authority (one of the UK's lead regulators)<br>**Committee induction**<br>• Prior to appointment, attended a Brand, Values and Conduct Committee meeting as an observer<br>• Attended a Board Risk Committee meeting as an observer<br>• Chair handover meeting with the outgoing Chair of the Brand, Values and Conduct Committee<br>• Briefings with management on: brand; reputational risk; conduct, sustainability; community programmes; culture, values and conduct; and government and regulatory relationships | **Singapore**<br>• Meeting with Regional Chief Executive Officer ASEAN and South Asia; Group Head, Brand & Chief Marketing Officer; Singapore Chief Executive Officer; Chief Information Officer, Corporate & Institutional Banking; Regional Head General Counsel & Legal, ASEAN; Head of Compliance Singapore; Group Head Strategy; Regional Chief Risk Officer, ASEAN; Country Management Team, Singapore<br>• Attended meetings with key clients<br>• Meeting with new Management Team members<br>**Hong Kong**<br>• Meeting with Chief Executive Officer, Hong Kong; Regional Chief Financial Officer, Greater China & North Asia; Chief Financial Officer, Hong Kong; Regional General Counsel; Interim Regional Head Compliance, Greater China & North Asia; Regional HR Greater China & North Asia and Head of HR Hong Kong; Chief Risk Officer<br>• Meeting with Greater China & North Asia Regional Chief Executive Officer<br>• Dealing room visit<br>• Briefings on Hong Kong business overview; Private Banking; and Financial Markets<br>• Meeting with Hong Kong Executive Committee<br>• Meeting with Women's Internal Network, Hong Kong | **Sierra Leone**<br>• Meeting with the Chief Executive of Standard Chartered Bank in Freetown<br>**South Africa**<br>• Meeting with Regional Head, Corporate Finance, Africa in Johannesburg<br>• Meeting with Regional Head, HR, Africa in Johannesburg<br>**New York**<br>• Tour of Standard Chartered Bank offices including overview of the dollar-clearing business<br>• Meetings with Head of Governance, North America; Chief Financial Officer, Americas; Chief Risk Officer, Americas; Regional Credit Officer, Americas<br>• Briefing on regulatory compliance landscape and regulatory reform<br>• Briefing on the Supervisory Remediation Programme, Financial Crime Compliance and Audit<br>• Meeting on the Group's People Agenda with Regional Head of HR, Americas and Regional Head of Corporate Affairs, Brand & Marketing, Americas<br>**Peru (International Monetary Fund and World Bank Annual Meeting)**<br>• Received a presentation from the Chief Economist – Global macroeconomic overview<br>• Met with Standard Chartered Bank management and with the Global Head of Public Sector Development Organisation<br>• Attended conference on securing sustainable growth<br>• Networking with clients and partners and attending client meetings |

## Ongoing development plans

Sustaining an effective, well-informed and functional Board requires not only a robust induction process but also a well-managed process of ongoing engagement, training and development. During the year, all directors received a combination of training, briefings, presentations and papers on a range of topics to ensure that each director's contribution to the Board remained well-informed and relevant. This training took the form of refresher training on statutory duties; an update on regulatory and governance responsibilities and obligations; briefings on live and emerging trends in the macroeconomic landscape and on the Senior Managers Regime (SMR). The table below gives further detail on who received these briefings.

The directors are supported by the Group Company Secretary and the Group Corporate Secretariat team. Directors also have access to independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors. The delivery of Board and Committee papers and other material to directors through iPads is now well-embedded and provides the Board with a much more flexible and efficient method of accessing information.

## Directors' induction and ongoing development in 2015

| | Induction training[1] | Directors' duties and regulatory updates | Visits to our markets and meetings with local management | Emerging trends: macro-economic landscape | Senior Managers Regime |
|---|---|---|---|---|---|
| Sir John Peace | N/A | ✔ | ✔ | ✔ | ✔ |
| W T Winters (appointed 10 June 2015) | ✔ | ✔ | ✔ | ✔ | ✔ |
| O P Bhatt | N/A | ✔ | ✔ | ✔ | ✔ |
| J S Bindra (stepped down 30 April 2015) | N/A | N/A | ✔ | ✔ | N/A |
| Dr K M Campbell | N/A | ✔ | ✔ | ✔ | ✔ |
| Dr L Cheung | N/A | ✔ | ✔ | ✔ | ✔ |
| D P Conner (appointed 1 January 2016) | N/A | N/A | N/A | N/A | N/A |
| Dr B E Grote | N/A | ✔ | ✔ | ✔ | ✔ |
| A N Halford | N/A | ✔ | ✔ | ✔ | ✔ |
| C M Hodgson | N/A | ✔ | ✔ | ✔ | ✔ |
| G Huey Evans, OBE (appointed 1 April 2015) | ✔ | ✔ | ✔ | ✔ | ✔ |
| N Kheraj | N/A | ✔ | ✔ | ✔ | ✔ |
| S J Lowth | N/A | ✔ | ✔ | ✔ | ✔ |
| R Markland (stepped down 31 December 2015) | N/A | ✔ | ✔ | ✔ | N/A |
| A M G Rees | N/A | ✔ | ✔ | ✔ | ✔ |
| Dr Han Seung-soo, KBE | N/A | ✔ | ✔ | ✔ | ✔ |
| P A Sands (stepped down 10 June 2015) | N/A | N/A | ✔ | ✔ | N/A |
| V Shankar (stepped down 30 April 2015) | N/A | N/A | ✔ | ✔ | N/A |
| P D Skinner, CBE (stepped down 31 December 2015) | N/A | ✔ | ✔ | ✔ | N/A |
| Dr L H Thunell (stepped down 31 January 2016) | N/A | ✔ | ✔ | ✔ | N/A |
| O H J Stocken, CBE (stepped down 28 February 2015) | N/A | N/A | ✔ | N/A | N/A |
| J M Whitbread (appointed 1 April 2015) | ✔ | ✔ | ✔ | ✔ | ✔ |

1. Applicable to new directors appointed during 2015

These briefings took the form of a combination of presentations, Board dinners, discussions and the circulation of papers

## Board effectiveness review

Against a background of the business reorganisation, the continued transition of the Board and its committees and last year's externally facilitated Board effectiveness review, it was considered that the 2015 review would be most effectively conducted internally, with a particular focus on evaluating the interplay between management and the Board.

## Committee effectiveness

The effectiveness of each of the Board committees is also reviewed annually. In 2015, each of the committees conducted an internally facilitated effectiveness review. These reviews, facilitated by Group Corporate Secretariat, requested committee members as well as permanent attendees of the Audit, Board Risk, Remuneration, Brand, Values and Conduct, and Board Financial Crime Risk Committees to provide their input and thoughts on their committees' effectiveness.

The feedback was formally discussed by each of the committees, and overall they were considered to be effective, challenging and well-managed. An action plan has been designed to address the key observations identified.

### The 2015 Board effectiveness review process

**Individual conversations with the Chairman**

Each Board member met with the Chairman during the spring/summer of 2015 to provide their feedback and key observations on the Board's effectiveness and to provide their suggestions and opportunities for further enhancement. In providing their feedback, directors took three factors into account:

- Identifying opportunities to simplify and streamline the Board and its committees
- Ensuring the most effective use of the independent non-executive directors', and the senior executives', time
- Ensuring the effectiveness of the Board and its committees is maintained/enhanced

**Key observations, themes and feedback evaluated**

The Chairman reviewed the range of feedback provided on the Board's performance and identified some broad themes for consideration by the Board, including:

- Board and committee linkages and information flows
- Committee streamlining and simplification, including composition, remit and frequency of meetings
- Board and committee meeting logistics, including the location of meetings

**Board and Governance and Nomination Committee discussion**

The Board and the Governance and Nomination Committee discussed all of the findings of the review following which an action plan was developed and agreed for 2016.

The Board was mindful that the Senior Managers Regime (SMR) would impact the roles, remit and ways of working of the Board and its committees. A subsequent briefing was held for the independent non-executive directors on SMR in the autumn of 2015.

**2016 agreed action plan**

**The Action Plan for 2016 includes:**

- Review the format, frequency and length of Board and committee meetings to ensure that the time directors spend together is maximised
- Ensure the continuation of the overseas Board meetings across the Group's markets and consider the inclusion of committee meetings
- Review the composition and clarify the role of each Board committee and simplify the linkages between the committees and the Board as a whole
- Consider the remits and coverage of the Board committees taking account of emerging risks as they arise

## Directors' performance

During the spring/summer of 2015, the Chairman held discussions with each of the directors to review and assess their individual performance. This is used as the basis for recommending the re-election of directors by shareholders.

For each of the independent non-executive directors, discussion included consideration of:

- Their time commitment, including (where relevant) the potential impact of any outside interests
- The current and future committee membership and structure
- The Board's composition, taking into account when each independent non-executive director envisaged stepping down from the Board

## Chairman's performance

The Senior Independent Director met with the independent non-executive directors, without the Chairman present, to review the Chairman's performance.

## Investor engagement

The Board understands the importance of regular, transparent and open engagement with investors throughout the year. The Board receives regular updates on the views of the Group's key shareholders and stakeholders, and Board members openly seek the views of our shareholders, both directly and through the Group's Investor Relations team.

### Key investor engagement in 2015

**March 2015**
Full year results and annual report

**April 2015**
Q1 Interim Management Statement

**May 2015**
Annual General Meeting

**August 2015**
Half year results

**November 2015**
Q3 Interim Management Statement, Strategic Review, rights issue

We have continued to focus on enhancing our engagement with our shareholders and wider stakeholders, including investor voting bodies and credit rating agencies, to explain our performance and set out our plans to refocus the Group.

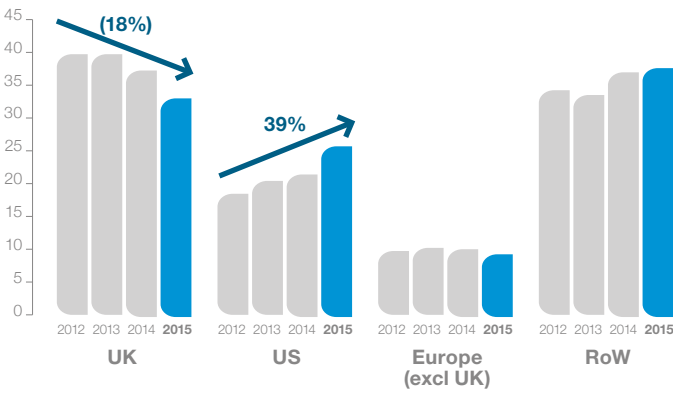
A key feature of our engagement was the announcement of the results of our Strategic Review and a $5 billion fully underwritten two for seven rights issue in November 2015. This was a London-based event hosted by Bill Winters and Andy Halford, and was attended by shareholders and equity analysts alongside a live audio webcast. The review set out a comprehensive programme of actions to move the Group towards a more profitable and less capital-intensive business. The rights issue positions the Group to accelerate execution of the new strategy. The event was followed by a series of roadshows and meetings with key investors from across Europe, the US and Asia, again hosted by Bill and Andy as well as other senior regional/business management. The rights issue closed in December with 96.8 per cent of our shareholders exercising their rights. We are very pleased with the success of our rights issue and would like to thank our shareholders for their support.

**A copy of the presentation can be viewed at investors.sc.com**

The Chairman, independent non-executive directors and management undertook in the region of 450 investor meetings during 2015. On joining the Group, Bill spent a significant amount of time engaging with our key investors to understand their views on the Group. In addition, both Bill and Andy together engaged extensively with our institutional shareholders and key target investors and each undertook in the region of 100 investor meetings.

The geographic mix of our shareholders has shifted towards the US from the UK, as illustrated in the graph below:

**Geographic shareholder movement** % of share register




### Institutional shareholders programme

The Investor Relations team has primary responsibility for managing day-to-day communications with our institutional investors. The team supports the Chairman, Group Chief Executive, Group Chief Financial Officer, other Board members, and senior management in conducting a comprehensive shareholder programme spread across the year. An insight into the level of engagement undertaken during 2015 is set out below:

- Formal presentation of full year and half year results to our institutional shareholders and analysts, followed by post-results investor roadshows in major investor centres across Europe, the US and Asia

**See investors.sc.com for further information**

- Interim Management Statement issued for the three months ending 31 March 2015 and nine months ending 30 September 2015, followed by a call with investors and analysts
- Industry conferences in London and Hong Kong attended by executive directors and senior regional/business management
- Extensive engagement on governance matters with our key shareholders and voting advisory bodies, undertaken by the Chairman, Group Company Secretary and senior management throughout the year. These meetings offered the opportunity to discuss changes to the Board and senior appointments across the Group
- The Chairman hosted a governance dinner in London in April 2015 attended by seven key investors. The dinner has become a regular feature of our market communication, providing an open forum for debate on topical governance issues and, more broadly, in deepening our relationship with our top shareholders
- In December 2015, Christine Hodgson, Chair of the Remuneration Committee led a consultation to shape a revised incentive structure. This included engagement with shareholders representing over half of our register on proposals to simplify and align our executive director remuneration and incentives to the new strategy, announced in November 2015, and to ensure ongoing regulatory compliance. More details can be found in the Directors' remuneration report on page 99. We will be seeking shareholder approval for our executive remuneration policy at the 2016 Annual General Meeting
- Various investor meetings were hosted by a combination of our directors and other senior management, including the Group Treasurer, and regional and business management

### Retail shareholders' programme

The Group Company Secretary oversees communication with our retail shareholders. The Annual General Meeting, held on 6 May 2015, provided an opportunity for the Board to meet with our retail shareholders, listen to their views and respond to their questions. In addition, during the year, we met with the United Kingdom Shareholders' Association.

**The results of the voting at the 2015 AGM can be viewed at investors.sc.com**

### Debt investor programme

Group Treasury manage the Group's relationships with debt investors and the three major rating agencies. Country chief executives and chief financial officers lead on management of subsidiary ratings. In 2015, management met with debt investors across Europe, the US and Asia and maintained a dialogue with the rating agencies. The Group is an active issuer of senior unsecured and non-equity capital and it is therefore important to maintain regular contact with debt investors to ensure continued appetite for the Group's credit. The Group's credit ratings are important to the external perception of the Group's financial strength and creditworthiness.

**Further information can be found at investors.sc.com**

## Subsidiary governance philosophy and linkages

We have a Group structure operated through both subsidiaries and branches, and maintain a consistent approach to overall governance, while respecting local governance requirements. During the year under review, governance was managed across the Group's eight geographic regions through the respective Regional Chief Executive Officer offices, business and functions. As part of the business reorganisation[1], the number of regions has been reduced to four. In addition, Group Corporate Secretariat operates as a global function with consistent policies and standards. Management of geographic governance is structured to cover economic and political developments, financial performance, governance and risks, franchise development, conduct and people.

As at 31 December 2015, the Group had 27 banking subsidiaries and 68 independent non-executive directors (excluding our PLC Board independent non-executive directors). As the independent non-executive directors on our Board travel across the Group's footprint, they play a critical role in actively engaging with the banking subsidiary independent non-executive directors.

In 2015, Sir John Peace and Naguib Kheraj hosted calls with the subsidiary independent non-executive directors. Sir John focused on the strategic priorities and direction of the Group, performance, senior management changes and PLC Board succession. Naguib provided context on the work of the Audit Committee and the key areas for focus for the coming year.

We continue to maximise our online forum for the subsidiary independent non-executive directors so that we can share Group information and key messages on a timely basis. We continually look at ways to improve our model for engaging the subsidiary independent non-executive directors, in order that they remain well-informed and well-equipped to make decisions that are aligned to the Group's interests as well as to their local shareholders' interests.

## Board committees

The membership of the committees has evolved during the year, to ensure that they continue to have the right skills and expertise to support the work of the Board. Full details of the committee composition changes made during the year can be found within each of the committee reports on pages 79 to 141.

The Chairs of a number of committees also changed during the year. Christine Hodgson succeeded Ruth Markland as Remuneration Committee Chair, following the 2015 AGM. Ruth remained on the Committee until she stepped down from the Board at the end of 2015, providing a well-managed and smooth handover. Jasmine Whitbread was appointed Chair of the Brand, Values and Conduct Committee on 1 January 2016 succeeding Paul Skinner, who stepped down from the Board at the end of 2015, following a detailed handover. David Conner was appointed a member of the Board Risk Committee on 1 January 2016 before succeeding Lars Thunell as Chair on 1 February 2016. Lars and David ensured a well-managed handover ahead of Lars stepping down from the Board on 31 January 2016.

The Board Financial Crime Risk Committee was established in January 2015. In its first year, the Committee has been very active, particularly in overseeing the Group's progress in achieving enhanced standards relating to the management of financial crime compliance and has provided valuable oversight in connection with the Group's financial crime compliance controls and procedures. An insight into this committee's focus during its first year, as well as details on the four external advisor members who provide essential input can be found on page 96.

The Board places significant reliance on its committees by delegating a broad range of responsibilities and issues to them. As such, it remains critical that effective linkages are in place between the committees and the Board as a whole, not least because it is impractical for all independent non-executive directors to be members of all of the committees. An holistic approach has been taken with the committees to ensure that effective mechanisms exist to enhance these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each committees, overlapping membership between Board committees and facilitating regular interaction between the committee chairs.

1. The reorganisation of our business was implemented on 1 October 2015, and will be reflected in our 2016 Annual Report and Accounts

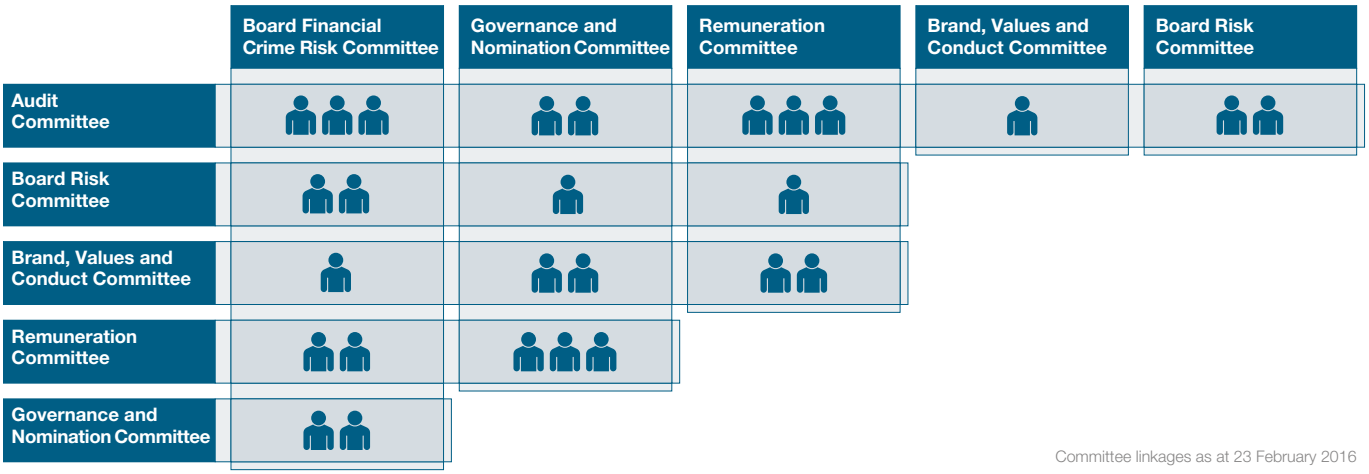
Alongside common committee membership, the Board receives the minutes or a written summary of each of the committees' meetings (with the exception of the Governance and Nomination Committee). During 2015, the membership of many of the committees has changed, incorporating fresh perspectives from newly appointed Board members balanced against the need to maintain stability.

The Board Risk Committee maintains Group-wide oversight of all risk types. Alongside this, each of the Board committees takes primary responsibility for relevant risk types. For instance, the Brand, Values and Conduct Committee has primary oversight of the approach by which reputational risk is managed. The Remuneration Committee oversees risk arising from remuneration. The Board Risk Committee has primary oversight of the way credit, capital, market, liquidity, operational, country cross-border and pension risk is managed, and the Audit Committee oversees the management of financial and internal controls. The Board Financial Crime Risk Committee oversees risk in the context of financial crime compliance.

The roles of each of the Board committees are described in more detail on pages 79 to 141.

As part of each director's tailored ongoing development, our independent non-executive directors are encouraged to attend meetings of committees of which they are not members, as another way for them to gain greater insight and understanding into the work undertaken and matters discussed by all of the committees.

### Committee membership linkages




Committee linkages as at 23 February 2016

# Audit Committee

**Naguib Kheraj**
*Chair of the Audit Committee*

**Dear Shareholder**

**Through its work in 2015, the Committee has provided oversight on behalf of, and assurance to, the Board with regard to the quality and effectiveness of financial reporting on regulatory, compliance and internal audit matters.**

In addition to the disclosure requirements relating to audit committees under the UK Corporate Governance Code 2014, the Committee's report sets out the areas of significant and particular focus for the Committee over the course of the year. Such areas have included impairment on loans and advances, goodwill impairment testing and valuation of financial instruments, and the impact of the Strategic Review. The Committee has also had deeper discussions on the enhancements to specific areas of the Group's control environment and the Group's compliance under the requirements of the Volcker Rule. This report also sets out how the Committee reached a position whereby it was satisfied that the disclosures made in the Annual Report and Accounts meet the test of the 'fair, balanced and understandable' statement made by the Board, and how the Committee has satisfied itself as to the quality of the audits conducted by the Group's statutory auditors and by its Group Internal Audit function.

The Committee has also spent time discussing the control environment and operational risk. There is an overlap between the work of the Audit Committee and the Board Risk Committee. While the Board Risk Committee has considered issues relating to operational risk management, the Audit Committee has considered the issues from a practical point of view. To gain greater insight into the lessons learned from operational risk, the information provided by Group Internal Audit has been refined so as to increase the concentration on actions being taken to address weaknesses and ensuring that there is clear accountability for actions required to be followed up to close audit findings. One of the observations made as part of the 2014 Committee Effectiveness Review was that in discussing audit findings, explanation tended to be provided by those in control functions rather than line management responsible for the activity. During 2015, this has been addressed by inviting line management to be present when issues are being discussed so as to enable greater engagement between operational management and the Audit Committee.

As Committee Chair, I was involved in the selection and appointment of the Group's new Group Head of Internal Audit following her predecessor's appointment to another role within the Group.

During the course of the year, there have been changes to the Committee's composition. Ruth Markland and Lars Thunell stepped down from the Committee on 6 May 2015 and 31 January 2016 respectively. I would like to thank Ruth and Lars for their valuable contributions to the Committee.

David Conner joined the Committee on 1 January 2016. David has significant global banking experience, strong risk-management credentials and an in-depth knowledge of Asian markets.

**Naguib Kheraj**
*Chair of the Audit Committee*

**Who sits on the Audit Committee**

| | Scheduled meetings |
|---|---|
| N Kheraj (Chair) | 6/6 |
| D P Conner (appointed 1 January 2016) | N/A |
| C M Hodgson | 6/6 |
| Dr B E Grote | 6/6 |
| **Directors who stepped down during 2015/2016** | |
| R Markland (stepped down 6 May 2015) | 2/2 |
| Dr L H Thunell (stepped down 31 January 2016) | 6/6 |

Other attendees at Committee meetings in 2015 included: Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Director, Compliance, People and Communication; Group General Counsel; Group Head, Legal and Compliance; Group Company Secretary; Group statutory auditors.

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members' only meetings.

**The Committee has written terms of reference that can be viewed at sc.com. They include all the material points recommended under the UK Corporate Governance Code**

## The Committee's composition and role

The Committee members have detailed and relevant experience. The Board is satisfied that Christine Hodgson has recent relevant financial experience and that all the other Committee members have board experience and knowledge of financial reporting and international business. Details of their experience can be found on pages 62 to 65. All the Committee members are independent.

The overlapping membership between the Committee and the Board Risk, Remuneration, Brand, Values and Conduct and Board Financial Crime Risk Committees is one of the mechanisms for ensuring that the linkage between the Audit Committee and other Board committees avoids gaps or unnecessary duplications between the remit of each committee.

The Committee's role is to review, on behalf of the Board, the Group's internal financial controls. It is also responsible for oversight and advice to the Board on matters relating to financial reporting and has exercised oversight of the work undertaken by both Group Internal Audit and the Group's statutory auditor, KPMG LLP (KPMG).

## Financial reporting

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, reviewing any significant financial reporting judgements contained in them.

Group Finance issues detailed instructions and guidance on reporting requirements to all reporting entities within the Group in advance of each reporting period end. These are followed up by an extensive dialogue between Group Finance and the reporting units on any new requirements, clarifying understanding and ensuring consistency in reporting. Much of the processing and related control activities are carried out in the Group's three main processing hubs and this helps drive efficiencies and consistency in the control environment. The interaction between country reporting teams and the centralised hubs is subject to a process of evaluation. Where specialist skills or judgement are required, such as credit impairment, financial instrument valuation, goodwill assessment, evaluation of significant legal cases and pension-related calculations, centralised teams manage the activity and work with the relevant country teams. The submission of financial information from each reporting entity to Group Finance is subject to certification by the responsible in-country chief financial officer, and analytical review procedures are carried out both in-country and at Group level.

The Committee received reports from Group Finance on changes in accounting standards and disclosure requirements and on significant accounting issues at each reporting period, including taxation. The Committee was satisfied that the Group's policies and practices are appropriate. During the year, the Committee received reports from Group Finance on implementing IFRS 9 *Financial Instruments*, effective from 1 January 2018. These reports covered project governance, key risks, the implementation approach as well as the expected funding requirements. The Committee was made aware of the change to the accounting requirements for classification and measurement of financial assets and the new expected credit-loss impairment provisioning approach and the enhanced hedging requirements required by IFRS 9.

The Committee received detailed reports from specialist functions such as Group Internal Audit, Group Risk and Group Legal. The Committee also received reports and updates from KPMG. This year, KPMG has focused particularly on credit, valuation, goodwill and restructuring costs. The Committee is therefore made aware of all materially relevant issues that have concerned management during the year.

For the 2015 Annual Report and Accounts, the Committee paid particular attention to the following issues:

- Impairment of loans and advances
- Valuation of financial instruments
- Goodwill impairment testing
- Impact of the Strategic Review, including restructuring costs

## Impairment of loans and advances

The net charge to the income statement in respect of impairment losses on loans and advances and other credit risk provisions for the year ended 31 December 2015 is $4,976 million. Throughout the year, the Committee requested and received information on specific names and industries based on its assessment of the external environment, developments in footprint markets and areas identified in discussions with the Board Risk Committee. There is some common membership across the Audit Committee and the Board Risk Committee with the Chair of the Audit Committee being a member of the Board Risk Committee and vice versa. This ensures that, in addition to an assessment of current adequacy of provisions, the Committee is also afforded a forward-looking view on potential risks and their impact. The Committee also receives reports from management at each reporting period, detailing, among other things, the composition of the loan book, provisioning levels and cover ratio by client

segment, and the judgement exercised around the individual and portfolio impairment provisions.

In 2015, this covered the following key areas:

- In Corporate & Institutional Clients and Commercial Clients, major individual provisions were assessed for adequacy through a review of the assumptions underpinning possible recovery options and related cash flows. For certain significant exposures in the performing book, particularly those graded credit grade 12 and managed by Group Special Asset Management, the Committee was briefed on business plans, management assessment of the recoveries and collateral available. Trends in 'early alert accounts' (see Risk overview on pages 156 to 160) were shared and the concentration of exposures in certain sectors such as Commodities and geographies such as China and India were analysed in further detail (see pages 156 to 160 in Risk overview)
- In Private Banking, provisions are assessed on an individual basis. Loan impairment increased to $94 million following an impairment provision relating to a single client case
- In Retail Clients, where provisions are assessed more on a collective basis (other than for mortgages), an analysis by products and geographies was provided with related delinquency trends. The Committee also continued to gain comfort from the fact that the Retail loan book is predominantly secured and the loan-to-value ratio on the mortgage book remains low at 49 per cent

The Committee has discussed impairment with management and the auditors, and considers the provisions held within each of the client segments to be appropriate.

### Valuation of financial instruments

The Committee receives reports at each reporting period, detailing the valuation process (which is undertaken by a unit independent of the business); the amounts reserved to cater for model and projection risks, which cover both Level 2 and Level 3 assets; and the significant valuation judgements in respect of Level 3 instruments.

The judgements in relation to the valuation of financial instruments are more subjective in respect of Level 3 assets, where the value is based on models that use a significant degree of non-market-based inputs. For the Group, the quantum of such assets is very low; of the $198 billion financial assets held at fair value as at 31 December 2015, only $3 billion, or 1.5 per cent, was Level 3.

In addition, the Group enhanced its inputs into the methodology utilised for estimating derivative credit and funding valuation adjustments, to bring them more in line with market practice. The estimates now utilise more market-implied default probabilities and external funding rates rather than expected loss calculations based on historical default probabilities and internal funding rates.

The net effect of this change in estimate amounted to additional charges of $863 million. The Committee considered the underlying changes that were proposed and agreed the changes were reasonable.

### Goodwill impairment testing

The total goodwill carried on the balance sheet as at 31 December 2015 is $3,616 million and, based on the review of forecasts and assumptions by management, the Committee considers that, other than as noted below, the headroom available is sufficient to support the carrying value. The Group undertakes its annual assessment of goodwill impairment as at 30 September each year and the Committee receives a detailed paper outlining the forecasts used for determining cash flows, the basis of the assumptions used (including any change from previous years), headroom availability and sensitivities of the forecasts to reasonably possible changes in assumptions. Additionally, for each interim and year-end reporting date, an update is also provided to the Committee, in particular for cash generating units (CGU) where the goodwill held is either material or more prone to pressure in a stress scenario. In 2015, the Committee focused in particular on the goodwill impacted by the Strategic Review announced on 3 November 2015.

As at 31 December 2015, management identified a shortfall between the value-in-use and the carrying amounts of the Thailand and Taiwan CGUs and proposed a total impairment of $488 million in respect of the goodwill associated with both CGUs. The Taiwan impairment of $362 million arose principally from a slowdown in the local market and the impact on projected cash flows. Thailand impairment of $126 million arose as a consequence of management actions to reposition the business following the Strategic Review and has been classified as Restructuring.

The Committee reviewed the forecasts and the assumptions used to derive them and agreed that the proposed impairment charges were reasonable. Further details can be found in note 25 on page 294.

### Impact of the Strategic Review

The Group announced its Strategic Review on 3 November 2015. The Committee considered:

- The extent to which restructuring provisions can be recognised and attributed to the Strategic Review, and the measurement of any recognised provisions
- Whether certain non-current assets should be reclassified as held for sale
- Impairment charges or revaluations arising from Strategic Review actions
- Whether the level of disclosure required in the Annual Report and Accounts is fair, balanced and understandable

The Committee reviewed management's judgements, including the assumptions behind them, and are satisfied that these are reasonable. The Committee has reviewed the related disclosures and consider them to be appropriate.

### Disclosures

The Committee discussed the proposed disclosure within this year's Annual Report and Accounts arising from:

- Alignment to best practice through the application of the BBA Code for Financial Reporting Disclosure
- Bilateral discussions between the UK Prudential Regulation Authority (PRA) and the BBA, which inform best practice included in the BBA code noted above
- UK Corporate Governance Code change in the context of the Viability statement

The Committee reviewed and discussed the Group's Pillar 3 Disclosures and the main changes from the previous period

including countercyclical capital buffer, leverage ratio, interest rate risk in the banking book and encumbered assets.

The Committee also considered the impact of the following:

- Guidelines issued by the European Banking Authority in December 2014 on materiality, proprietary and confidentiality and on disclosure frequency under Part Eight of the Capital Requirements Regulation
- Standards for revised Pillar 3 disclosure requirements issued by the Basel Committee in January 2015 which set out the first phase of the review

### Fair, balanced and understandable

The Committee has reviewed and monitored the appropriateness and completeness of the published financial statements of the Group. In light of the deliberate management actions taken, the Committee has paid particular attention to the formal announcements relating to the Group's financial performance, significant financial reporting judgements and estimates made by the Group. On behalf of the Board, the Committee has considered, and has satisfied itself, that the processes and procedures in place ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The statement is underpinned by the Committee's, and the Board's, belief that the Annual Report and Accounts does not exhibit any bias; that all important elements have been disclosed; and that the descriptions of the Group's business as set out in the strategic report are consistent with those used for financial reporting in the Group's financial statements.

In making its assessment, the Committee applies its accumulated knowledge and experience from Board meetings, engagement with management throughout the year and from access to management performance information.

Key judgements and the significant issues reported are consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements on page 242.

When it has been necessary to use specialist terms, these have been defined for clarity and consistency in the Glossary on pages 353 to 356.

As part of the Committee's year-end discussions, consideration was given to the Going concern and Viability statements, further details of which can be found on page 142.

### Oversight of internal controls

The Committee has considered reports in respect of the control environment in the Group's businesses.

The Committee discussed control environment issues, their root causes and management's responses and remediation activities. On a regular basis, the Group Internal Audit Report provides the Committee with Group Internal Audit's view of the system of internal controls across all risk types, business and country functions. In addition, the Committee is provided with an audit issues map which highlights the most significant matters being monitored by Group Internal Audit and items of thematic interest which have arisen as part of audits and which warrant the Committee's attention. Alongside this report, the Committee is also provided with the Group Internal Audit Information Report, which provides the Committee with additional information on significant areas referred to in the Group Internal Audit Report. It contains management actions to address items included on the audit issues map, summarises the audit completed over the course of the year and overdue high-risk issues identified in audits since the last Group Internal Audit Information Report to the Committee.

During the course of the year, for those most significant matters being monitored by Group Internal Audit which appear on the audit issues map, business and/or regional management have been invited to attend Committee meetings to provide updates on the steps being taken to enhance the control environment and address internal audit findings with a specific focus on credit controls.

At the Committee's request as a result of internal audit findings, specific deep dives into the Group's Private Bank and Pakistan control environments were undertaken. In relation to these, the Committee considered the residual risk profile based on key control indicators, discussed recent adverse events and the control enhancement programmes being rolled out across both the Private Bank and in Pakistan.

In addition to reporting to the Audit Committee, Group Internal Audit provides the Board Risk Committee with a summary of Group Internal Audit's appraisal of controls across key risks subject to the Committee's oversight.

The Committee also considered a report from KPMG on the Group's control environment and management's responses to the findings together with proposed timelines for addressing the findings.

### Interaction with regulators

Together with the chairs of the audit committees of UK banks, building societies and insurers, Naguib Kheraj met with the Bank of England. Byron Grote also attended one of these discussions. In addition, as Committee Chair, Naguib spoke at the PRA Regulatory College and held discussions with the PRA, the New York Department of Financial Services, and the Reserve Bank of India. Together with Christine Hodgson and Lars Thunell, Naguib also met with the Federal Reserve Bank of New York.

### Speaking Up policy

The Group's Speaking Up policy allows our employees to raise, in confidence, any concerns that they may have about possible improprieties in matters of financial reporting or other areas. The Legal and Compliance Management Information Report provides the Committee with data relating to business referral and Speaking Up cases broken down into type of allegation. The Report also advises the Committee of the number of any disciplinary actions that have arisen as a result of business referral and speaking up cases, together with a regional breakdown across the Group's footprint of the main investigative type. The information enables the Committee to consider whether there are any trends across the Group's markets in terms of the type and nature of Speaking Up incidences together with the resolution and consequences.

### Significant investigations and material disputes

As part of routine reporting, the Committee has received an overview of internal investigations referred to the Compliance Investigations team in 2015 and summaries of the most

significant internal investigations underway. In 2015, those investigations that relate to financial crime have been reported to the Board Financial Crime Risk Committee following its establishment on 1 January 2015.

The Committee has also received summary overviews of material disputes and significant cross-border orders facing the Group and the action taken to manage and mitigate risk arising from them.

### Group Internal Audit and Group Compliance

The Committee has reviewed the resourcing and proposed work plans for both the Group Internal Audit and Group Compliance functions, and is satisfied that both are appropriate in light of the proposed areas of focus, expertise and skill that are required within both functions, given the current regulatory environment. The Committee is also satisfied with the independence of the Group Internal Audit function. In addition, Naguib Kheraj had regular meetings with the Group Head of Internal Audit in 2015.

Towards the end of 2014 and the beginning of 2015, EY conducted a gap analysis of Group Internal Audit's processes against the Global Institute of Auditors' Standards (the Standards). This gap analysis was part of a periodic update following their effectiveness review in 2013. The Committee discussed the findings of EY's report which reported known and minor exceptions to the Standards.

As part of Group Internal Audit's ongoing process improvements, Deloitte performed a review of Group Internal Audit's risk assessment process in order to ensure that Group Internal Audit maintains best practice. While no significant shortcomings were identified, certain efficiencies were suggested which would not compromise the integrity of the process. Following Deloitte's recommendations, the Committee was advised of the proposed changes ahead of the Group's 2016 Risk Assessment exercise which commenced in the second half of 2015.

The Committee monitored and assessed the role and effectiveness of the Group Internal Audit function. This included reviewing and monitoring Group Internal Audit's progress against its annual audit plan and the review and monitoring of post-audit actions. The Committee also reviewed and approved Group Internal Audit's Charter.

With the exception of the year-end focused meeting, at every scheduled meeting the Committee receives a Legal, Compliance and Regulatory Report. This report provides a summary of significant legal, compliance and regulatory risks facing the Group, and key actions being taken to address or mitigate them. It is accompanied by The Legal and Compliance Management Information Report, which in addition to Speaking Up, includes the legal risk map which highlights the most significant matters being monitored by Legal and Compliance, key regulatory programme updates, significant compliance and regulatory issues and a regulatory relationship scorecard. In addition to receiving this information, twice a year the Committee receives a material disputes report. In 2015, the Committee also requested a specific report on managing regulatory reform and updates on the Group's state of readiness for compliance with the Volcker Rule (Volcker) and regulations. So as to gain greater insight into the Group's state of readiness for Volcker compliance, as part of the overseas Board meeting in Washington, DC, Committee members also met with PwC who had been engaged to assist in the delivery of the Volcker compliance programme.

### Group statutory auditor

The Committee has exercised oversight of the work undertaken by KPMG throughout the year. As Committee Chair, Naguib met with local audit partners in India. In addition, and in response to one of the findings of the 2014 Audit Committee effectiveness review, KPMG's local regional partners from the UAE, Singapore, India and Hong Kong attended Committee meetings. Such interaction enables the Committee members to gain greater insight of the challenges faced in the Group's markets from a statutory audit perspective. It provides the local regional partners' assessment of the Group's control systems and infrastructure in their markets, the quality of the Group's management from a control perspective and a benchmark of the Group's control environment against local and international peers. They also provided the Committee with insight into local regulatory developments and the Group's standing and relationships with regulators in the country.

The Committee has discussed the business and financial risks with KPMG and has sought and received assurance that these risks have been properly addressed in the audit strategy and plan, which have been reviewed by the Committee. The Committee has enquired, and is satisfied, that KPMG has allocated sufficient resources to address these risks. The Committee has sought and received assurance that no undue pressure has been asserted on the level of audit fees to ensure that there is no risk to audit work being conducted effectively and independently.

In accordance with The Auditing Practices Board requirement, the lead audit engagement partner was rotated in 2015, having held the role for five years. The new lead audit engagement partner has a background of auditing banks and understands the markets in which the Group operates.

The Company complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. A tender for audit services was last conducted in 2013, following which KPMG were appointed as the Group's statutory auditor. Before the audit tender took place, KPMG had been the Group's statutory auditor for over 25 years and has regularly rotated its lead partner.

A review of the performance and effectiveness of KPMG is conducted on an annual basis. This review includes an assessment of their independence and objectivity. The review was performed jointly by Group Internal Audit and Group Finance and took the form of a structured survey which was sent to Committee members, the chairs of the Group subsidiary audit committees, the Group's Management Team, country chief executive officers, regional/country chief financial officers, members of the Group Finance Leadership Team and country heads of audit. The results of the survey were discussed by the Committee. Overall, it was felt that KPMG is considered to be effective, objective and independent in their role as Group statutory auditor.

KPMG's audit fees for 2015 were presented in the context of the audit tender as negotiated by the Committee and adjusted for current changes in the size of the Group.

### Non-audit services

In 2015, the Group spent $8.8 million on non-audit services provided by KPMG.

The Group's policy on the award of non-audit services to auditors (the Policy) explicitly states that the auditors should only be used when there is evidence that there is no alternative in terms of quality and cost, whether knowledge and experience of the Group is required to deliver an efficient and effective solution or where they are required to be used by regulatory requirements. The Policy clearly sets out the criteria for when the Committee's prior written approval is required.

**Further details on non-audit services provided by KPMG can be found in note 8 on page 260. Further information on the Group's approach to non-audit services can be found on page 149**

### Linkages between the Committee and subsidiary Board audit committees

While being mindful of the need to not adversely impact the independence of the Group's subsidiary audit committees, there are documented processes in place that define the linkages between, and roles of, the Audit Committee and the audit committees of subsidiary companies. Another way in which the Committee strives to ensure appropriate linkages between the Committee and the Group's subsidiary audit committees is by holding an annual call hosted by Naguib as Committee Chair and attended by the chairs of the subsidiary audit committees. In 2015, the Group Head of Internal Audit, Group Head of Legal and Compliance, Deputy Group Chief Financial Officer and lead audit partner of the Group's statutory auditor also participated on the call. This call provides the opportunity to share, among other things, the Committee's priorities for the year ahead and to discuss ways in which the linkages between the subsidiary audit committees and the Committee can be further strengthened and enhanced without comprising independence.

### Ongoing training and development

As detailed on page 74 and as part of the independent non-executive director engagement and ongoing development plans, for those independent non-executive directors who are members of the Committee, a joint session was held with the Board Risk Committee on credit valuation adjustment and prudential valuation adjustment.

### Committee effectiveness review

In keeping with the approach to Committee effectiveness reviews adopted by other Board committees, in 2015 an internally facilitated effectiveness review was conducted. This review, facilitated by Group Corporate Secretariat, involved each committee member providing their thoughts on the Committee's effectiveness. The feedback was then formally discussed by the Committee and an action plan designed to address the key observations.

# Board Risk Committee

**David Conner**
*Chair of the Board Risk Committee*

**Dear Shareholder**

**I joined the Board and Board Risk Committee on 1 January 2016 and following a well-managed handover, succeeded Lars Thunell as Chair on 1 February 2016. I would like to express my gratitude to Lars for his Chairmanship of the Committee since April 2014.**

The Group manages enterprise-wide risks through its risk management framework, with the objective of maximising risk-adjusted returns while remaining within the Group's risk tolerance.

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is therefore a central part of the financial and operational management of the Group.

Challenging geo-political and economic headwinds and volatility presented a difficult context for risk management in 2015.

For the Board Risk Committee to be truly effective, it needs to be forward looking. Consideration continues to be given to what information needs to be provided to the Committee on the Group's current risk position as well as the evolving risk environment.

The Committee receives regular reports on risk management, including portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Committee also has deeper discussions on a rolling basis on different sections of a consolidated risk information report that is provided at each scheduled Committee meeting. The following pages provide an overview of the Committee's activities in 2015. An overview of the Group's risk profile is set out on pages 161 to 199 and our approach to risk management is set out on pages 204 to 217.

In discharging its responsibilities, the Committee has sought, and has received, assurance regarding the independence of the Group's Risk function in its role of maintaining the Group's risk management framework, upholding the overall integrity of the Group's risk/return decisions and exercising direct risk-control ownership for credit, market, country cross-border, short-term liquidity and operational risks.

The Committee's composition has evolved during the course of the year. In addition to Lars stepping down from the Committee, Paul Skinner stepped down on 31 December 2015, and I would like to thank Paul for his valuable contributions to the Committee. Gay Huey Evans joined the Committee on 16 June 2015. Gay has extensive banking and financial services experience, and significant commercial and UK regulatory and governance experience.

**David Conner**
*Chair of the Board Risk Committee*

## Who sits on the Board Risk Committee

| | Scheduled meetings | Ad hoc meetings |
|---|---|---|
| D P Conner (Chair)[1] (appointed on 1 January 2016) | N/A | N/A |
| O P Bhatt | 6/6 | 1/1 |
| G Huey Evans, OBE (appointed on 16 June 2015) | 4/4 | N/A |
| N Kheraj | 6/6 | 1/1 |
| **Directors who stepped down during 2015/2016** | | |
| O H J Stocken, CBE (stepped down on 28 February 2015) | 2/2 | N/A |
| P D Skinner, CBE (stepped down on 31 December 2015) | 6/6 | 1/1 |
| Dr L H Thunell (stepped down on 31 January 2016) | 6/6 | 1/1 |

Other attendees at Committee meetings in 2015 included: Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group Company Secretary; Group Treasurer; Group statutory auditors

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.

**The Committee has written terms of reference that can be viewed at sc.com**

1. David Conner was appointed Committee Chair on 1 February 2016

## The Committee's role

The Committee's composition reflects the Group's belief that it should comprise members with a deep and broad experience of banking and of the risk factors affecting it. Further details of the Committee members' experience can be found on pages 62 to 65.

The Committee has assessed the effectiveness, resourcing and independence of the Group's risk function. As Committee Chair, Lars Thunell was involved in the process to appoint both the interim Group Chief Risk Officer and Mark Smith, who joined the Group as Group Chief Risk Officer on 25 January 2016.

To guard against gaps or unnecessary duplication between Board committees, throughout 2015, there was overlapping membership between the Committee and the Audit, Remuneration, Brand, Values and Conduct and Board Financial Crime Risk Committees.

The Committee's role is to exercise oversight on behalf of the Board of Group-wide risk, and to provide assurance to the Board that the overall framework for complying with the Risk Management Principles and Risk Tolerance Statement is operating effectively. In the few instances where it does not have primary oversight for a given type of risk, the Committee interacts closely with the other Board committees where the remits of those other committees clearly cover risk-related issues. For example, the Audit Committee has oversight of the Group's internal financial controls; the Remuneration Committee has oversight of the risks relating to remuneration; the Board Financial Crime Risk Committee has oversight responsibilities in relation to financial crime compliance matters; and the Brand, Values and Conduct Committee has oversight of the mechanisms by which reputational risk is managed. This interaction assists the Committee in ensuring that it is well informed on discussions held, and the close collaboration of the Committee Chairs helps to ensure that there are no gaps and any potential for unnecessary duplication is avoided.

In carrying out its responsibilities, the Committee is closely supported by the Group Chief Risk Officer, Group Chief Financial Officer, Group Head of Internal Audit and Group Treasurer.

## Risk information provided to the Committee

The Committee tracks a wide range of risk metrics through a risk information report. This report is provided at each scheduled Committee meeting and provides an overview of the Group's risk profile against the Group's risk tolerance. For example, the report provides an overview of credit risk in the Group's Corporate & Institutional, Commercial, Private Banking and Retail Clients portfolio.

A report from the Group Chief Risk Officer is also presented at every scheduled meeting. These reports cover the macroeconomic environment, geo-political outlook, material exposures and ongoing risks. In addition to these regular reports, at every scheduled meeting, the Committee also receives a report from the Group Treasurer, which covers market developments, liquidity, capital, recovery and resolution planning, and rating agency updates.

At every scheduled meeting, the Committee also receives a regulatory update in relation to capital, liquidity and risk. This provides a summary of the key prudential regulatory developments affecting the Group's capital, risk-weighted assets and liquidity measures. Such information enables the Committee to discuss with management the major risks faced by the Group across its businesses.

In 2015, the Committee has had deeper discussions on the following topics:

- Commodities and energy
- Cyber security
- Operational risk – Financial Markets, Private Banking and Corporate & Institutional Clients
- Aircraft
- Group Special Asset Management
- Basel Committee on Banking Supervision Risk Data Aggregation and Reporting requirements

As part of the overseas Board meeting held in Delhi in March 2015, the Committee met with local management and discussed the challenges, opportunities, risks and mitigants in relation to risk management in India.

Twice a year, the Committee receives a report from the Group Head of Internal Audit. These reports provide the Committee with a summary of Group Internal Audit's appraisal of controls across key risks subject to the Committee's oversight, together with the key risk issues identified by Group Internal Audit's work and management actions put in place to address the findings.

A separate report to the Audit Committee provides Group Internal Audit's view of the system of internal controls across all risk types, business and country functions.

The Committee is authorised to investigate or seek any information relating to any activity within its terms of reference.

The Committee focused on the following matters at its meetings in 2015:

### Risk management framework and principles

As noted above, the Group's risk management framework provides the architecture for the overall management and control of all risks and for the implementation of the risk management principles. The Group's Code of Conduct sets the standards for individual behaviour.

Risk management principles are top-level statements of principle that inform the Group's overall approach to risk management and the Group's risk culture.

**Further details regarding the risk management framework and principles can be found on page 204 of the Risk and capital review**

### Risk tolerance

Every year, the Committee pays careful attention to the formulation of the Group's Risk Tolerance Statement, in order to assure itself that it is effective in setting appropriate boundaries in respect of all main risk types. The Group's Risk Tolerance Statement defines the maximum level of risk the Group is ordinarily willing to take in pursuit of its strategy, in accordance with its risk principles. Risk tolerance constrains risk to the levels where the potential for any financial or reputational damage is consistent with the sustained pursuit of strategy and in line with the reasonable expectations of stakeholders. On behalf of the Board, the Committee reviews a range of risk tolerance assessments and stress tests which consider alignment with the Group's tightened Risk Tolerance Statement.

Risk tolerance covers credit and country cross-border risk, capital and earnings volatility, market risk, liquidity risk, operational risk, reputational risk and pension risk.

Through its risk management framework, the Group manages enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within the Group's risk tolerance.

**Further details regarding the Group's Risk Tolerance Statement can be found on pages 25 to 26 of the Strategic report and page 206 of the Risk and capital review**

### Capital and liquidity

On a frequent basis, the Committee considers and discusses the Group's capital and liquidity position and the regulatory environment and expectations. The Committee has considered the Group's Individual Liquidity Adequacy Assessment which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due. The Committee reviews the liquidity risk stress testing framework and assumptions together with the liquidity risk tolerance statement. With regard to capital, the Committee reviews the Group's Internal Capital Adequacy Assessment in detail in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and the likely anticipated outlook.

**Further details concerning capital can be found on page 218 and liquidity can be found in the Risk and capital review on page 156**

### Stress testing

The Committee tracks a wide range of risk metrics that are also periodically reported to the Board. Stress testing and scenario analysis are used to assess the financial and management capability of the Group to continue to operate effectively under extreme but plausible trading conditions.

The Committee maintains oversight of the Group's overall stress-testing programme, reviewing the design, key assumptions and the outcomes of principal tests. The Committee reviewed the results of the Bank of England stress test which the Group, along with the largest UK banks, was required to undertake.

**Further details of stress testing can be found on page 207 of the Risk and capital review**

### Operational risk

The Group's operational risk tolerance approach aims to control operational losses (finance and reputational) so that they do not cause material damage to the Group's franchise.

The Committee has received summaries of the Group's operational risk profile, measures relating to operational risk tolerance thresholds, and updates on risks facing the Group and action being taken or to be taken to mitigate them, such as business restrictions.

**More details concerning the Group's approach to operational risk can be found on pages 197 and 214 of the Risk and capital review**

### Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and Accounts and the Half Year Report and has reviewed and approved the disclosure on the work of the Committee. In reviewing the operational risk disclosures made in this year's Annual Report and Accounts, the Committee has taken into consideration The Financial Stability Board's guidelines on principles and recommendations on disclosures contained in the 'Enhancing the Risk Disclosures of Banks' report issued by the Enhanced Disclosure Task Force in October 2012. In conjunction with the Audit Committee, the Committee also reviewed the Basel II Pillar 3 annual disclosure.

## Committee reporting to the Board

The Board received minutes of Committee meetings. There has also been formal periodic risk reporting to the Board in 2015 on risk issues, an overview of the Committee's main areas of focus from the Committee Chair, and the discussions held by the Committee in relation to the half and full year results.

### Interaction with management

On a regular basis, the Committee Chair met individually with the Group Chief Risk Officer. These meetings allow open discussion of any matters relating to issues arising from the Committee's formal discussions.

### Interaction with regulators

The Committee met with one of the Group's UK lead regulators, the Prudential Regulation Authority (PRA). The purpose of the meeting was to enable a discussion between the Committee and the PRA concerning prudentially focused topics such as the PRA's view of the Group's risk management framework and risk tolerance statement.

### Ongoing training and development

As part of the independent non-executive director engagement and ongoing development plans, as detailed on page 74, for those independent non-executive directors who are a member of the Committee, a joint session was held with the Audit Committee on credit valuation adjustment and prudential valuation adjustment.

### Committee effectiveness reviews

In keeping with the approach to Committee effectiveness reviews adopted by other Board committees, in 2015, an internally facilitated effectiveness review was conducted. This review, facilitated by Group Corporate Secretariat, involved each Committee member providing their thoughts on the Committee's effectiveness. The feedback was formally discussed by the Committee and an action plan has been designed to address the key observations.

# Brand, Values and Conduct Committee

**Jasmine Whitbread**
*Chair of the Brand, Values and Conduct Committee*

**Dear Shareholder**

**This is my first report as Chair of the Brand, Values and Conduct Committee, having succeeded Paul Skinner on 1 January 2016. Sincere thanks are due to Paul for his leadership as Chair of the Committee since its inception in 2010. I would also like to thank Byron Grote for his valuable contribution until stepping down from the Committee in June 2015.**

It has been important for the Committee to maintain momentum during this past year of significant change and challenge for the Group, internally and externally, when a focus on our brand, values and conduct was never more important.

Good conduct remains a key priority for the Group, and the Committee dedicated considerable time to examining the progress being made in delivering the Group's Conduct Programme. We reviewed how the refreshed Group Code of Conduct is being communicated and embedded throughout the Group and monitored the progress against My Voice employee engagement action plans. The Committee sought evidence of commitment from employees at every level to strengthen the Group's compliance culture.

At each meeting, the Committee reviews the Group's reputational risk exposure, including an analysis of the material reputational risks facing the Group, as well as the strategies in place to protect the Group's internal and external reputation. In May 2015, the Committee, along with members and external advisor members of the Board Financial Crime Risk Committee, met with representatives of the Financial Conduct Authority (FCA) to discuss best practice in the area of conduct risk.

The Group's approach to sustainability was discussed, taking on board lessons learnt during the year, including through our engagement with civil society groups. The Committee will return to this in 2016, in light of the new strategy.

The Committee continued to oversee the evolution of the Group's brand and marketing initiatives, with a consistent drive to ensure that the Group maximises return on investment. This included reviewing the value of our Liverpool Football Club sponsorship and the Group's recent commitment to Project Everyone, a worldwide project under the auspices of the United Nations, which aspires to communicate the newly agreed Sustainable Development Goals to seven billion people. In March 2015, during the Board's visit to Delhi, the Committee conducted an in-depth review of the Group's local brand positioning and sustainability issues.

The Committee continued to review the Group's position on community engagement, with significant levels of high-quality skills-based employee volunteering. We are keen to assess the impact of this investment over time.

Dovetailing our business with other committees and with the Board remains an important element of our work. This is particularly the case in our oversight of government and regulatory relationships. This year, we were asked by the Audit Committee to examine the Retail Clients complaint management and governance process and, more generally, we will benefit from a client-oriented perspective.

At the end of the year, we undertook a review of our effectiveness as a Committee to identify where improvements could be made. We are using conclusions to inform our agenda for the year ahead. In light of this, we have supported the Group's Strategic Review of our Here for good brand promise since inception, and have planned a deep look at culture across the Group. More broadly, with the new business strategy, direction and Management Team guiding the Group, we will want to ensure a realignment of the Committee's agenda to ensure maximum coherence and value-add to the business.

**Jasmine Whitbread**
*Chair of the Brand, Values and Conduct Committee*

**Who sits on the Brand, Values and Conduct Committee**

| | Scheduled meetings |
|---|---|
| J M Whitbread (Chair)[1] (appointed on 1 September 2015) | 2/2 |
| Dr K Campbell | 4/5[2] |
| Dr Han Seung-soo, KBE | 5/5 |
| C M Hodgson | 5/5 |
| **Directors who stepped down during 2015/2016** | |
| P D Skinner, CBE (stepped down on 31 December 2015) | 5/5 |
| Dr B E Grote (stepped down on 16 June 2015) | 3/3 |

Other attendees at Committee meetings in 2015 included: Group Chairman; Group Chief Executive; Deputy Group Chief Executive; Director, Compliance, People and Communication; Group Company Secretary; Group Head of Corporate Affairs

**The Committee has written terms of reference that can be viewed at sc.com**

1. Jasmine Whitbread was appointed Chair of the Committee on 1 January 2016
2. Dr Kurt Campbell was unable to attend one meeting due to medical reasons

## Committee composition and role

The Committee's membership is made up of a number of directors who have significant experience and knowledge of a combination of geo-political relations, sustainability matters, international and government relations. The biographies of the Committee members are set out on pages 62 to 65.

The Committee provides oversight of the Group's brand, conduct, culture and values, reputational risk, government and regulatory relations and sustainability issues.

## Brand

The Committee reviewed the realigned strategic approach to leverage the Group's sponsorships, to drive brand recognition and also create bespoke assets and events to deepen client relationships in the Group's core markets. In this vein, the Committee supported the Group's continued sponsorship of Liverpool Football Club (LFC) to drive brand salience by intensifying digital and social media collaboration with LFC. The Committee remains supportive that the Group's brand strategy is aspirational and demonstrates, via all communication channels, that Standard Chartered is a committed and knowledgeable partner to its clients, markets and communities.

The Committee supported the Group's participation in Project Everyone and discussed the critical benefits it would bring for society globally and for the Group. In discussing the breadth of themes that the 17 Sustainable Development Goals covered, the Committee agreed that it was essential to focus on the Sustainable Development Goals that were of particular relevance to the Group, its markets and clients. The Committee noted the plans in place to leverage the Group's sponsorship of LFC to disseminate the Sustainable Development Goals, including during the football match between LFC and Aston Villa on 26 September 2015, when the LFC football shirt featured the Sustainable Development Goals logo.

The Committee conducted a thorough review of the Group's two-year sponsorship (2015/2016) of the EY Entrepreneur of the Year Programme (a global annual awards programme that honours top entrepreneurs for their contributions to the economy and society). Furthermore, it continued to review the LFC sponsorship, assessing the Group's prime objectives of this sponsorship and analysing the fee structure, which aligns well to the Group's 'pay for performance' culture. The Committee emphasised the importance of measuring and demonstrating the value derived from this significant sponsorship, which is of particular relevance in Asian markets, in light of the economic environment and current headwinds.

The Committee continues to support the use of brand and marketing measurement tools, which has been evidenced by the Group's focus on the use of the Return on Marketing Investment (ROMI) technique in Retail Banking, which the Committee has assessed with a view to quantifying benefits and optimising spend. The ROMI methodology was initially rolled out in three pilot countries (Hong Kong, Singapore and India). It is proposed that three more countries are added in 2016 (the UAE, Kenya and Korea). ROMI insights are being incorporated into plans to improve marketing effectiveness. Furthermore, as a direct result of the Committee's feedback, the ROMI technique and capability was brought in-house from the external provider, enabling the Group to conduct end-to-end ROMI analysis.

At the end of 2015, the Committee confirmed its support of the Group's Strategic Review of our Here for good brand promise, which was being conducted to identify the 'lessons learned' from the execution of Here for good; and consider how the brand strategy could be refined to support the new business strategy going forward. The Committee will assess the outcomes of this review throughout 2016.

## Conduct

In line with the Committee's responsibility to oversee the Group's approach to raising the bar on conduct, the Committee has focused on the progress being made in regard to the Group's Conduct Programme. As part of this, the Committee discussed the four conduct pillars through which the Group is reviewing conduct: Fair Outcomes for Clients; Effective Financial Markets; Financial Crime Prevention, and Creating the Right Environment. The Committee agreed on the need to be explicit on what good conduct means in day-to-day business outcomes and ways of working.

In September 2015, the Committee reviewed the refreshed Group Code of Conduct (the 'Code'). In discussing the revised content, the Committee was pleased to note that the tone and messaging around individual ownership and accountability had been emphasised. As part of its review, the Committee endorsed the importance of 'tone from the top' demonstrated by the Group Chief Executive's introduction to employees, communicating the need to embed the Code. The Committee noted that the Code continues to receive sustained focus and remains a key priority for the Group.

In considering its role in regard to conduct, the Committee agreed on the importance of ensuring that its approach to conduct is value enhancing for the Group. Accordingly, the Board continues to have overall oversight of conduct and the

Committee continues to oversee the implementation of the Group's approach to raising the bar on conduct. The Board Financial Crime Risk Committee focuses on financial crime compliance oversight. The Committee will continue to review its role in regard to conduct matters in 2016.

### Culture and values

The Committee is fully supportive of the Group's endeavours to create a fair, safe and inclusive place to work that encourages creativity, collaboration and continuous improvement.

The Committee received an update on the action plans following up on the 2014 My Voice employee engagement survey. My Voice was introduced in October 2014, designed to provide insight on both engagement levels of employees and their alignment against the Group's strategic priorities. The survey was completed by 85 per cent of employees. It identified areas of strength, including immense pride in working for the Group, commitment and the importance of good conduct. It also covered areas for improvement. It was recognised that by 31 March 2015, 95 per cent of managers were in the process of executing their action plans. The Committee will receive an update on My Voice action plans in 2016. Further details on My Voice can be found on page 20.

In September 2015, the Committee reviewed the draft response from the Group Chairman and the Group Chief Executive to the Banking Standards Board (BSB) questionnaire concerning culture, behaviour and competence. The BSB was set up following the Parliamentary Commission on Banking Standards and the Banking Standards Review published by Sir Richard Lambert in April 2014. In discussing the contents of the draft response, the Committee noted that one of the BSB's aims was to provide boards with feedback and constructive challenge in regard to their assessment and management of culture, standards of behaviour and competence. It was supportive that the final response focused on a number of key themes of particular relevance to the Group. These themes included the importance of our Here for good brand promise; the Board and Board Committees' focus on culture; the role of the Code in assisting employees to live the Group's values and the continued focus on conduct through the Group's Conduct Programme. The intention is that the Board will discuss the BSB's findings in early 2016.

The Chairman's Here for good Awards (the 'Awards'), launched in 2012, are designed to enable Group employees to recognise the team and individual who best represents Here for good. The Awards have once again proved popular with employees with 519 entries from 37 countries and 64,462 votes from employees. The Committee continues to support the Awards and its powerful connection to Here for good.

### Reputational risk

The Committee reviews the processes by which the Group identifies and manages reputational risk in an effective and transparent manner, consistent with the Board-approved Group Risk Tolerance Statement. The Committee receives reports on the material thematic reputational risks facing the Group, provided from the perspectives of both internal and external stakeholders, at each meeting. This report sets out the Group function responsible for managing the issue, the mitigating actions being undertaken and an indication of where trends have improved or worsened since the previous update to the Committee.

This year, the Committee sought and received assurance on the enhancements that have been made to the Group's approach in identifying and managing reputational risk. This included an update on the ongoing communication under way to ensure that key stakeholders within the business are aware of the need for a robust and systematic approach for identifying, escalating and managing reputational risks, and their corresponding responsibility to consider reputational risk in all decision making.

Since January 2015, the Board Financial Crime Risk Committee has taken responsibility for any reputational risk associated with money laundering, sanctions abuse, bribery and corruption or any related topic. Further details can be found on page 96.

### Sustainability

Towards the end of 2015, the Committee discussed the Group's approach to sustainability, in line with the Group's new strategy. The Committee was fully supportive of the Group's view that there needs to be both clear articulation and demonstration that sustainability at Standard Chartered is broader than our community programmes, and that it needs to be integrated to the Group's core business. It was agreed that focus should be placed on the significant economic and social impact that the Group has through its core business. The Committee will continue to assess the Group's approach to sustainability in 2016, to ensure that it is simple, measurable and clear for stakeholders to understand.

Throughout the year, the Committee continued to assess the Group's community expenditure. It was noted that the Group's approach reflected significant levels of employee volunteering (EV) time given to both Group EV initiatives and volunteering opportunities that resonate with employees personally, such as mentoring in local schools or charities. It was recognised that the proportion of high-quality skills-based EV continued to increase. The Committee emphasised the importance of tracking the effectiveness of Group EV initiatives, in line with the overall community strategy to assess the impacts. Further details on EV can be found on page 23.

### Client focus

In 2015, the Committee received an update on the Retail Clients complaint management and governance process. This update had originated from an Audit Committee request, where it had been suggested that the Brand, Values and Conduct Committee hold a discussion on the programme in place to resolve the underlying issues of clients' complaints, with relevant representation from the Retail business segment. Accordingly, the Deputy Group Chief Executive, Chief Executive Officer, Retail Banking and Chief Operating Officer, Retail Banking participated in this discussion. The Committee was reassured to see the focus placed on identifying and addressing the underlying causes of client complaints with a view to reducing factors which led to complaints arising. Furthermore, in line with the FCA's Treating Customers Fairly principles, the work under way to ensure that clients do not face post-sale barriers when submitting claims or making a complaint. The Committee acknowledged the progress being made to improve automation and standardisation processes for clients more broadly.

### Government and regulatory relationships

The Committee has continued to oversee the Group's approach to its main government and regulatory relationships across our key markets, agreeing on the importance for the Group to engage with governments, policy-makers and other key bodies.

The Committee was conscious of the fact that given the Group's diverse geographic footprint, there are typically a number of supervisory matters or investigations ongoing at any time. It sought and received assurance that each major issue is given appropriate management attention and is reported to the relevant governance committee within the Group and the Audit Committee. During its discussion, the Committee stressed the criticality of ensuring that the management of government and regulatory relationships continued to receive appropriate focus, resource and senior management attention.

Since January 2015, the Board Financial Crime Risk Committee has taken responsibility for the Group's compliance with any remediation or other commitments made in respect of any regulatory order, deferred prosecution agreement or other disciplinary action taken in relation to the Group arising from, or in association with, money laundering, sanctions abuse, and bribery and corruption. Further details can be found on page 96.

## Committee effectiveness review

This year, the Committee undertook an internally facilitated effectiveness review with input from management and regular Committee meeting participants. Committee members were asked to provide their thoughts and feedback on progress made by the Committee throughout 2015, suggestions for the Committee's agenda in 2016 and any 'top of mind' thoughts on the Committee's effectiveness overall. Steps have been taken to consolidate the responses from the effectiveness review and implement them into the Committee's 2016 agenda to improve its future effectiveness.

# Governance and Nomination Committee

**Sir John Peace**
*Chair of the Governance and Nomination Committee*

**Dear Shareholder**

**We have continued to make changes to the membership of the Board and its committees throughout 2015 and into 2016. We have made a number of key appointments while reducing the overall size of the Board and enhancing its diverse perspective.**

We welcomed Bill Winters to the Board in June 2015, and recommended the appointment of three experienced and highly regarded individuals to the Board as independent non-executive directors during 2015. Gay Huey Evans and Jasmine Whitbread joined the Board in April 2015, bringing a combination of financial services, commercial, regulatory, business leadership and international experience. We announced David Conner's appointment to the Board in December 2015, ahead of him joining the Board in January 2016. He has significant banking and risk-management experience in the context of our markets having lived and worked across Asia for over 37 years. Details of these appointments and the other changes made to the Board's composition during the year are set out on page 71.

We continue to believe that a diverse Board facilitates effective discussion and decision-making, both within the boardroom and throughout the Group. The Committee, and the Board more generally, remain committed to our diversity policy, details of which can be found on page 95, and we are pleased to report that women now represent 20 per cent of our Board membership. More details on the diverse nature of the Board can be found on pages 62 to 65.

In addition to Board succession, the Committee spent time in 2015 discussing key executive and senior management positions. The new Management Team, formed as part of the reorganisation to execute the new strategy which we announced in November 2015, has further strengthened this pipeline of senior leaders within the Group.

In February last year, I stated my intention to step down as Chairman during the course of 2016. The process to identify my successor formally began in June 2015, when Naguib Kheraj was appointed as Senior Independent Director (SiD). The Committee, chaired by Naguib when considering all matters relating to Chairman succession, has been leading the search to identify my successor, with the assistance of two search firms. Details of the process can be found on page 94.

Ruth Markland stepped down from the Committee and as SiD in June 2015; Paul Skinner stepped down from the Committee on 31 December 2015; and Lars Thunell stepped down from the Committee on 31 January 2016. I would like to express my thanks to Ruth, Paul and Lars for their contributions to the Committee.

**Sir John Peace**
*Chair of the Governance and Nomination Committee*

**Who sits on the Governance and Nomination Committee**

| | Scheduled meetings | Ad hoc meetings |
|---|---|---|
| Sir John Peace (Chair) | 4/4[1] | 3/3[1] |
| C M Hodgson (appointed 7 May 2015) | 3/3 | 1/1 |
| N Kheraj | 4/4 | 1/3[2] |
| J M Whitbread (appointed 1 January 2016) | N/A | N/A |
| **Directors who stepped down during 2015/2016** | | |
| R Markland (stepped down on 15 June 2015) | 1/1 | 2/2 |
| P D Skinner, CBE (stepped down on 31 December 2015) | 4/4 | 3/3 |
| Dr L H Thunell (stepped down on 31 January 2016) | 3/4[3] | 3/3 |

Other attendees at Committee meetings in 2015 included: Group Chief Executive; Director, Compliance, People and Communications; Global Head, Executive Talent; Group Company Secretary

1. Sir John did not chair any meetings which considered matters relating to the Chairman's succession
2. Naguib Kheraj was recused from two ad hoc meetings due to a potential conflict
3. Dr Lars Thunell was unable to attend one scheduled meeting due to a prior commitment

## The Committee's composition and role

The Committee is responsible for the review of the Board's structure, size and composition, including the identification, assessment and recommendation of potential Board candidates. The Committee keeps under review the leadership needs of, and succession planning for, the Group in relation to both executive directors and other senior executives. In addition, on behalf of the Board, the Committee monitors progress towards the implementation of the Board diversity policy and considers any potential situational conflicts of interest declared by our Board members. The Committee also includes oversight of Board effectiveness and governance issues as well as the monitoring of corporate governance developments and emerging best practice.

**A copy of the Committee's full terms of reference can be found at sc.com**

We made a number of changes to the Committee's membership during the year, reflecting changes to the wider composition of the Board. Christine Hodgson was appointed as a member of the Committee in May 2015 having succeeded Ruth Markland as Chair of the Remuneration Committee. Ruth stepped down from the Committee on 15 June 2015, following Naguib Kheraj's appointment as Senior Independent Director (SID). Jasmine Whitbread was appointed to the Committee on 1 January 2016 to replace Paul Skinner, who she succeeded as Chair of the Brand, Values and Conduct Committee on the same date. Lars Thunell stepped down from the Committee and the Board on 31 January 2016. Biographical details of the members can be found on pages 62 to 65.

## Committee activities

In 2015, the Committee continued to play an important role in overseeing the future shape and composition of the Board. Further changes were made to the composition of our independent non-executive directors as part of the ongoing Board succession plan. This was aimed at streamlining the Board while ensuring a balance of tenure, diversity, geographic knowledge and industry experience.

The Committee led the succession process which resulted in the appointment of Bill Winters as Group Chief Executive. Much of the detail was set out in last year's Governance and Nomination Report concluding in Bill's appointment in June 2015.

Following the Committee's work during 2014 to identify two new independent non-executive directors with a combination of banking, commercial, leadership and international experience, the Committee recommended the appointment of Gay Huey Evans and Jasmine Whitbread to the Board in early 2015, leading to them joining the Board in April 2015. The Committee also oversaw the process and recommended the appointment of David Conner as an independent non-executive director, leading to his appointment to the Board on 1 January 2016. David brings further global banking experience and strong risk credentials to the Board alongside valuable experience of working across many of our Asian markets.

Following Ruth Markland's decision to step down from the Board after 12 years as an independent non-executive director, the Committee provided oversight of the process to identify Naguib Kheraj as Ruth's successor as SiD.

The Committee, in conjunction with the other independent non-executive directors, were provided with a detailed update of the new Management Team as part of the simplification of the Group's organisational structure[1].

The Committee considered the findings of the 2015 Board effectiveness review and the recommendations for enhancing Board governance. It particularly focused on the overall composition of the Board and its committees and the likely impact of the Senior Managers Regime.

## Chairman's succession

The Committee has oversight of the process for conducting the search to identify a new Chairman to succeed Sir John Peace. This began in June 2015, following the appointment of Naguib Kheraj as SiD. Naguib is leading the Chairman's succession process, as SiD, and chairing the Committee when considering all matters relating to the Chairman's succession. The Committee is being assisted on a joint mandate by two search firms, Russell Reynolds Associates and Lygon Group. We confirm that Russell Reynolds Associates is a supplier of senior resourcing

1. The reorganisation of our business was implemented on 1 October 2015, and will be reflected in our 2016 Annual Report and Accounts

to the Group, however, the Lygon Group has no other connection with the Group.

The Committee spent time agreeing the approach and the parameters; approved the characteristics and criteria which formed the job description; reviewed the research on potential candidates prepared by the search firms and participated in interviews with candidates. We have briefed our regulators and major shareholders on our process and timelines, recognising that it will take time to find the right individual. The process remains live and we will provide further information in line with our disclosure obligations.

### Annual re-election of directors

The review of the performance of each of the directors seeking annual re-election at this year's Annual General Meeting was carried out by the Chairman in 2015. For more detail on the process see page 75.

### Board diversity policy

The Board remains committed to its Board diversity policy, which includes our general approach to diversity and specifically sets out the intention to increase the representation of women on the Standard Chartered PLC Board to 25 per cent by 2017. While we set out our clear ambition in respect to gender representation, the policy is intended to ensure that diversity in its broadest sense remains a central feature of the Board. Reaching this objective remains front of mind, while ensuring that all appointments continue to be made on merit, with the prime consideration of maintaining and enhancing the Board's overall effectiveness. We believe that a highly effective Board is about chemistry and the right behaviours, underpinned by robust processes. The Board comprises individuals who have diverse skills, knowledge and experiences that combine to provide different perspectives.

**To review our Board diversity policy, visit sc.com**

The Committee made good progress in overseeing plans to achieve its gender diversity objective, as a result of both a reduction in the overall size of the Board and the appointment in April 2015 of Gay Huey Evans and Jasmine Whitbread.

Despite the retirement of Ruth Markland from the Board at the end of December 2015, the representation of women on the Board has increased from 11 per cent at the end of 2014 to 20 per cent at 23 February 2016.

The Committee will consider the Board diversity policy in the lead up to 2017 to assess its progress and in light of Lord Davies' recent five-year summary report on the representation of women of FTSE 100 boards. We are mindful of the recommendation that voluntary targets be increased to 33 per cent by 2020.

The representation of women on the new Management Team, the most senior leadership positions in the Group, below the Board, is very encouraging at 33 per cent.

In making recommendations for appointment to the Board, the Committee supported the search firms' voluntary code of conduct. The Committee worked with Lygon Group and Russell Reynolds Associates during the year. Both search firms are signatories to the voluntary code of conduct and are committed to supporting us in achieving our objectives and wider Board composition ambitions.

### Situational conflicts

As part of the Committee's remit, it reappraises the authorisations previously provided to directors for those situations in which he/she had, or potentially could have in the future, a direct or indirect interest that conflicts with the interests of the Group.

### Committee effectiveness review

The Committee considered the quality and volume of the information we receive and the mechanisms used to ensure that the Board as a whole is kept up to date regarding both executive and independent non-executive succession planning. In both cases, the Committee was satisfied that these were appropriate and should continue to be an area of focus going forward.

# Board Financial Crime Risk Committee

**Simon Lowth**
*Chair of the Board Financial Crime Risk Committee*

**Dear Shareholder**

**This is the first full report of the Board Financial Crime Risk Committee following its establishment on 1 January 2015. The Board took the decision to form this Committee to increase oversight and scrutiny on the effectiveness of the Group's policies and programmes to address financial crime. Together with the strengthening of the Group's financial crime compliance (FCC) function, its formation demonstrates our commitment to strong conduct and compliance at all levels of the organisation.**

Given that the oversight of financial crime compliance requires a specific mix of skills and experience, it was decided to compose the Board Financial Crime Risk Committee not only of independent non-executive directors but also of four external advisor members. Their calibre, experience and expertise has enabled the Committee to add perspective and allowed for deeper technical review, challenge and engagement on areas within its remit. I would like to thank and commend the external advisors, Lazaro Campos, Boon Hui Khoo, Frances Townsend and Sir Iain Lobban. They are outstanding leaders in their field and bring valuable and varied experience in global payments, law enforcement, security and intelligence. Their appointments are a clear signal of how important financial crime compliance is to the Group and how serious we are about getting it right.

As a result of the linkages with other aspects of conduct, risk and compliance it has also been valuable to benefit from the input of Naguib Kheraj (Chair of the Audit Committee), Christine Hodgson and, before her, Ruth Markland (Chairs of the Remuneration Committee), Lars Thunell, and joining us this year, David Conner (as Chairs of the Risk Committee). They contributed their individual expertise as well as facilitating effective coordination with the agendas of those committees.

During the year, we have benefited from induction and training on specific aspects of financial crime and insight from FCC experts and functions as well as client-facing staff. The Committee's independent non-executive directors and external advisor members have also been able to visit some of our markets to observe first hand operations on the ground and meet staff at all levels. We have spent time analysing trends and developments in financial crime risks and expectations and requirements of our regulators. Our oversight has encompassed anti-money laundering, anti-bribery and sanctions compliance efforts. We have been pleased to see the growing collaboration between the Group and external agencies in areas of common interest in the UK, the US and elsewhere throughout the Group's footprint, for example, in the area of combating human trafficking.

We have spent the majority of our time monitoring, reviewing and providing oversight and challenge to the Group's major programmes, including the Financial Crime Risk Mitigation Programme and our ongoing focus on improving and enhancing entity and new controls, which are critical to the delivery of significant and lasting enhancements to our FCC capabilities. We looked at the adequacy of resourcing of the Group teams responsible for sanctions and anti-money laundering systems and controls, the strength of leadership of the FCC team, led by the Group's Head of FCC and the implications of the growth of the function. We benefited from Group Internal Audit's independent view of the Group's control environment relating to financial crime risk. We also reviewed the remediation programmes being undertaken by the Group in response to regulatory orders. To achieve what the Board intends in this area requires an ongoing deep and consistent communication with staff on why combating financial crime is important. The Committee has welcomed the fresh and effective materials produced by the Group through the 'Whole Story' campaign, which is embedding with staff the core argument that combating financial crime is at the heart of a good banking business, can prevent harmful human consequences and is integral to the culture of the Group.

Ruth Markland and Lars Thunell stepped down from the Committee on 31 December 2015 and 31 January 2016 respectively. I would like to thank Ruth and Lars for their valuable contribution to the Committee since its inception. Gay Huey Evans will join the Committee on 1 March 2016.

**Simon Lowth**
*Chair of the Board Financial Crime Risk Committee*

## Who sits on the Board Financial Crime Risk Committee

| | Scheduled meetings |
|---|---|
| S J Lowth (Chair) | 4/4 |
| D P Conner (appointed on 1 January 2016) | N/A |
| C M Hodgson | 4/4 |
| N Kheraj | 4/4 |
| **Directors who stepped down in 2015/2016** | |
| R Markland (Stepped down on 31 December 2015) | 4/4 |
| Dr L H Thunell (Stepped down on 31 January 2016) | 1/4[1] |
| **External Advisor Members** | |
| L Campos | 4/4 |
| B H Khoo | 4/4 |
| Sir Iain Lobban | 3/3 |
| F Townsend | 3/4[2] |

Other attendees at Committee meetings in 2015 included: Group Chairman; Group Chief Executive; Group Company Secretary; Group General Counsel; Director, Compliance, People and Communications; and Global Head, Financial Crime Compliance.

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members' only meetings.

1. Dr Lars Thunell was unable to attend three scheduled meetings due to prior commitments
2. Frances Townsend was unable to attend one scheduled meeting due to a prior commitment

## Committee composition

The Committee was established on 1 January 2015.

The Committee is chaired by Simon Lowth and includes the Chairs of the Audit Committee, Board Risk Committee and Remuneration Committee. More details on the independent non-executive directors can be found in their biographies on pages 62 to 65.

In addition, the Committee includes four external advisor members who are neither directors nor employees of the Group but who have skills relevant to the Committee and whose expert input is valuable. These four external advisor members have been appointed to support the work of the Committee and provide a valuable external perspective. The biographies of the external advisor members are set out below:

### Sir Iain Lobban KCMG CB

Sir Iain was director of the UK security and intelligence organisation, the Government Communications Headquarters (GCHQ), from mid 2008 to late 2014. Prior to assuming the position of director, Sir Iain served as director-general of operations for GCHQ from 2004 to 2008. Sir Iain specialises in counter-terrorism, cyber security and the prevention and detection of serious crime. He was a member of GCHQ's Board for 13 years with half that period as its chair. During his tenure at GCHQ, Sir Iain established rigorous governance systems built around corporate risks, compliance and ethics.

### Lazaro Campos

Lazaro was chief executive officer of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the member-owned global cooperative for the secure exchange of information regarding financial transactions, from April 2007 until July 2012. Prior to this, Lazaro ran the banking division of SWIFT from 2003 until 2007. Lazaro is currently a non-executive independent director of miiCard Ltd (a start-up offering digital trust and online identity verification based on bank account data), advisor to the Bill and Melinda Gates Foundation, and advisor to the Arab Monetary Fund's Arab Regional Payment System (ARPS).

### Boon Hui Khoo

Khoo Boon Hui served as president of INTERPOL from 2008 to 2012, and as chairman of INTERPOL's steering committee addressing the global trafficking of illicit goods and counterfeiting from 2012 to 2014. He was the commissioner of the Singapore Police Force between 1997 and 2010, and is currently an advisor to INTERPOL, senior fellow of Singapore's Ministry of Home Affairs, non-executive director of the Temasek Foundation and non-executive director of Singapore's Casino Regulatory Authority.

### Frances Fragos Townsend

Frances served as assistant to the US President George W Bush for Homeland Security and Counterterrorism until 2008. She is currently executive vice president for international affairs at MacAndrews and Forbes, an investment holding company, and an independent non-executive director of Freeport-McMoran, Scientific Games and Western Union.

## Induction and training

Tailored induction and ongoing engagement programmes have been provided to each of the four external advisor members. These programmes have also been made available to the independent non-executive director members of the Committee, who have attended a number of these sessions.

In 2015, the programmes have been run over a period of three days and consisted of meetings with senior executives across the Group to familiarise the external advisor members with the structure, the operations and the business of the Group, the activities and objectives of the financial crime compliance function, the Group's Financial Crime Risk Mitigation Programme (FCRMP)and the Group's commitments under its 2012[1] and 2014[2] regulatory settlements with the US Authorities.

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)
2. The US authorities comprise the New York Department of Financial Services (NYDFS)

In addition to their visits to the UK head office of the Group, each of the external advisor members visited a key market outside the UK in 2015. During those visits, they met with senior executives and members of the local financial crime compliance teams and the regional and country chief executive officers.

## Committee activities

The Committee focuses on financial crime compliance matters across the Group.

As part of the Board's commitment to further strengthen its oversight of all aspects of conduct across the Group, the Committee replaced and has taken over the work of the Board Regulatory Compliance Oversight Committee at the beginning of 2015, as well as some areas of responsibility previously overseen by the Audit Committee and the Board Risk Committee, where this is appropriate in the context of financial crime compliance oversight.

In its first year, the Committee has overseen the Group's progress in achieving enhanced standards in relation to the management of financial crime compliance and has provided valuable oversight in connection with the Group's financial crime compliance controls and procedures. The Committee has tracked the progress of the Group in continuing to meet the objectives, timelines and obligations of the FCRMP and the US SRP. Regular updates are provided to the Committee on these issues at each meeting.

The Committee has agreed areas of focus which include overseeing the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements for financial crime compliance matters including anti-money laundering, sanctions compliance, prevention of bribery and corruption and prevention of tax crime.

In particular, it has provided ongoing Board level oversight of the FCRMP (a Group-wide initiative to identify and embed best practices in the field of financial crime compliance), the Group's commitments under its 2012[1] and 2014[2] settlement agreements with the US Authorities (the US SRP) and the broader programme of enhancements being introduced across the Group in relation to financial crime compliance – including those relating specifically to customer due diligence processes, transaction monitoring and other core controls.

The Committee has identified and discussed emerging financial crime compliance risks and sought and received assurance from executive management on how the Group intends to address such risks. The Committee has also considered the Group's risk tolerance statements in relation to financial crime compliance.

Regular reports and updates were provided to the Committee by the relevant executives in 2015. These executives include the Director, Compliance, People and Communication; the Global Head; Financial Crime Compliance; the Group General Counsel; and the Group Head of Internal Audit.

The Committee receives regular reports from the Global Head of Financial Crime Compliance in his capacity as the Group's Money Laundering Reporting Officer. This has included the annual Group Money Laundering Reporting Officer's Report and the Global Risk Assessment.

The Group General Counsel has also provided periodic reports to the Committee on any significant regulatory or government investigations which have taken place relating to financial crime compliance.

In addition, the Chair of the Committee has had regular meetings with the Group Chairman; the Director, Compliance, People and Communication; the Group General Counsel, and the Global Head, Financial Crime Compliance to discuss financial crime risk outside the scheduled Committee meetings in 2015.

## Committee linkages

Where there is a perceived overlap of responsibilities between the Committee and other Board committees, such as the Board Risk Committee, the Audit Committee or the Brand, Values and Conduct Committee, the respective Committee Chairs have the discretion to agree which Committee is the most appropriate to address that responsibility. There is clear mapping of such overlapping items to ensure each Committee focuses on its area of responsibility. The linkages between Committees are further enhanced through cross-membership.

## Committee effectiveness review

The Committee undertook an internally facilitated effectiveness review in the second half of 2015.

To support the effectiveness review, Committee members were asked to provide their thoughts and feedback on progress made in the Committee's first year and thoughts on the Committee's overall effectiveness since its inception. The feedback was then discussed by the Committee. While the Committee members believed that the Committee had been performing well and was already proving to be effective, there were suggestions on ways the Committee could improve, which have been factored into an agreed action plan for 2016.

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)
2. The US authorities comprise the New York Department of Financial Services (NYDFS)

# Directors' remuneration report

## Incentivising the delivery of the new strategy and growth in shareholder returns

> "We have simplified our incentive arrangements to give a clearer and more transparent remuneration policy aligned with the new strategy"
>
> **Christine Hodgson**
> *Chair of the Remuneration Committee*

- A new directors' remuneration policy is proposed with a simplified structure and increased long-term focus. This will be put to shareholders for approval at the Annual General Meeting (AGM) in May 2016
- The new policy has two elements – an annual incentive and stretching long-term incentive plan (LTIP) performance conditions
- 2015 Group annual incentives of $855 million, down 22 per cent from 2014 and down 41 per cent since 2011
- No 2015 annual incentive award for executive directors
- Subject to approval of the new policy, the LTIP will be used to incentivise directors to deliver the new strategy and grow shareholder returns

### New directors' remuneration policy – key terms

- Separate annual incentive and LTIP introduced with the LTIP weighting increased to at least 60 per cent of the variable remuneration opportunity
- The annual incentive and LTIP will incorporate performance measures aligned with the recent Strategic Review to focus delivery on the short and long term
- Deferral of remuneration for up to seven years, in line with future regulatory requirements
- Variable remuneration maximum remains at 200 per cent of fixed remuneration

### Dear Shareholder

**This letter summarises the major decisions taken by the Remuneration Committee for the year and describes the context in which they were made. The letter also provides a summary of the new proposed directors' remuneration policy.**

### Business context

During 2015, the Group announced comprehensive changes to its strategy, structure and leadership, with a view to positioning the Group for sustainable growth and the delivery of improved returns.

2015 has been poor in respect of the key financial metrics for performance of the business and there has also been a material decline in share price, alongside a cut in the dividend. This financial performance has had a significant influence on the Committee's decision-making for the year.

### Key financial metrics

| Metric | 2015 | 2014 | Change |
|---|---|---|---|
| Operating income ($million) | **15,439** | 18,236 | (15.3)% |
| Underlying profit before tax ($million) | **834** | 5,195 | (83.9)% |
| Common Equity Tier 1 ratio (%) | **12.6** | 10.7 | 190 bps |
| Earnings per share (cents) | **(6.6)** | 138.9 | (104.8)% |
| Underlying return on risk-weighted assets (%) | **0.3** | 1.9 | (84)% |
| Return on equity (%) | **(0.4)** | 7.8 | (105.1)% |

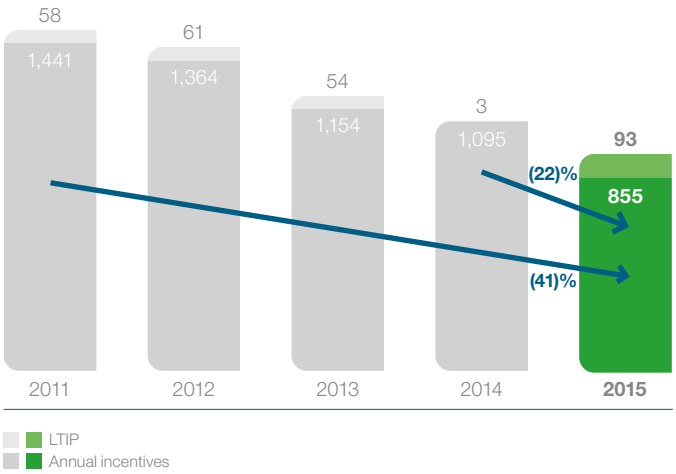
The Committee also considered other factors as part of the wider context when discussing 2015 remuneration outcomes. These included:

- Taking a global approach to remuneration, given that more than 97 per cent of Group's employees are based outside the UK
- That many labour markets remain buoyant with wage inflation pressures. Inflation is forecast on average to exceed 6 per cent in Africa and 5 per cent in the Middle East in 2016
- A 2015 voluntary attrition rate of 16.7 per cent, an increase from 15.1 per cent in 2014
- The importance of rewarding and incentivising employees to deliver the new strategy (announced in November 2015)

## Group performance and remuneration for 2015

In light of the Group's performance, the Committee determined that discretionary annual incentives for 2015 should be $855 million, a reduction of 22 per cent on 2014. Since 2011, annual incentives are down by 41 per cent. The Committee decided this level of annual incentives was required in order to reward and incentivise those employees who remain with the Group to deliver the new strategy.

**Incentives trend 2011 to 2015** $million




The Committee concluded that it would not be appropriate to award annual incentives to the most senior management for 2015 performance. However, incentives to execute the strategy and create sustained shareholder value are key to the delivery of the plan. The value of the 2015 long-term incentive awards will be determined by Group performance over the period 2016 to 2018. Incentive awards were also made to individuals who left the Group during 2015 as part of restructuring, who were in service for at least nine months of the year, totalling $45 million.

## New proposed directors' remuneration policy

We intend to propose a new directors' remuneration policy to shareholders for approval at our AGM in May 2016. This policy, set out in this directors' remuneration report and summarised below, has been developed giving consideration to the following:

- The aim to simplify incentive arrangements and give a clearer and more transparent remuneration policy
- The recent corporate changes and new business strategy
- The Committee's objective to align remuneration packages with the delivery of the new strategy and improved shareholder returns
- Shareholder preferences for a simpler and clearer remuneration policy with greater focus on long-term performance and our undertaking to shareholders to reflect these preferences in a new policy once the regulatory position was clearer
- Regulatory developments, in particular the new requirements published by the Prudential Regulatory Authority (PRA) in June 2015, require a certain proportion of variable remuneration to vest no faster than pro rata over three to seven years after award. In addition, the remuneration guidelines published by the European Banking Authority (EBA) late in 2015, contain further provisions around the operation of share awards

In light of the above, the Committee decided it would be appropriate to propose a new remuneration policy, with the following characteristics:

- Separate annual incentive award alongside a long-term incentive plan (LTIP) award to give a simpler remuneration structure with a clear link to short- and long-term performance. At least 60 per cent of the variable remuneration opportunity will be subject to stretching long-term performance measures
- Annual incentive and LTIP performance measures focused on the new business strategy
- Increased length of remuneration deferral from three to seven years

## Directors' remuneration for 2015

In light of the Group's financial performance in 2015, it was determined that all executive directors should have zero annual incentives for 2015. This decision was arrived at following consideration of the specific performance measures applicable to variable remuneration determinations and the wider financial Group performance.

In addition, all LTIP awards granted to executive directors in 2013 lapse in full given performance measures have not been met.

Subject to shareholder approval of the new remuneration policy at our AGM in May 2016, LTIP awards will be granted to Bill Winters and Andy Halford, delivered in shares (with a face value of 200 per cent of fixed remuneration at the time of award) and subject to the satisfaction of stretching long-term performance measures, which will be measured over three years. These performance measures are comprised of a return on equity (RoE) measure (with a Common Equity Tier 1 (CET1) underpin), a relative total shareholder return (TSR) measure and other measures which are aligned with the new strategy. If performance measures are achieved, the shares will vest over the period 2019 to 2023.

## Board changes

The Committee considered the remuneration of a number of Board joiners and leavers during the year, including Peter Sands, Jaspal Bindra and V Shankar, who stepped down as executive directors, and Bill Winters, who joined the Board as Group Chief Executive in June 2015.

The arrangements for these joiners and leavers were dealt with in accordance with the framework of the approved directors' remuneration policies for recruitment and termination.

Specific details on the remuneration arrangements on leaving for Peter, Jaspal and V Shankar have been announced previously and are also included on page 123.

On 7 January 2016, it was announced that Mike Rees would retire from the Board on 30 April 2016. In line with the UK reporting regulations, details of the relevant remuneration arrangements on leaving were set out in the London Stock Exchange announcement on 7 January 2016.

As part of Bill Winters' remuneration arrangements, the Committee approved a buy-out award. This compensated Bill for the forfeiture of share interests on joining from his previous employment. The buy-out award is in the form of shares in the Group with a value of $9.93 million as at the date of grant (22 September 2015), significantly lower in value than the value of the share interests forfeited. More information is included on page 122.

In addition to the executive director changes, Ruth Markland and Paul Skinner stepped down from the Committee and Byron Grote, Naguib Kheraj and Jasmine Whitbread joined during 2015. On behalf of the Committee, I would like to thank Ruth, for the significant and invaluable contribution she made during her tenure as Committee Chair. Further information on the activities of the Committee during 2015 is included on page 134.

## Conclusion

The Committee has taken the approach of zero annual incentives for 2015 for executive directors, together with the opportunity for the new executive director team to be rewarded for the delivery of improved future performance. This focus on reward for performance has also been key in structuring the proposed directors' remuneration policy, for which the Committee is seeking shareholders' support at our AGM in May 2016.

This directors' remuneration report has been prepared by the Committee and approved by the Board.

**Christine Hodgson**
*Chair of the Remuneration Committee*

# Introduction to the 2015 directors' remuneration report

The following table sets out where key content can be found in the 2015 directors' remuneration report.

| Section | What this section includes | Pages |
|---|---|---|
| **Introduction** | • Summary of key remuneration decisions<br>• Answers to key questions about the new directors' remuneration policy | 102 to 104 |
| **Directors' remuneration policy** | • The new directors' remuneration policy, to be proposed to shareholders for a binding vote at our AGM in May 2016 | 105 to 114 |
| **2015 report on remuneration** | Full information on:<br>• The remuneration decisions made in 2015 and how those decisions were made<br>• The directors' share interests<br>• How the remuneration policy will be implemented in 2016 and 2017<br>• The activities of the Remuneration Committee | 115 to 135 |
| **Additional remuneration disclosures** | Full information on:<br>• The remuneration approach for all employees<br>• Pillar 3 disclosures on material risk takers' remuneration | 136 to 141 |

## Summary of key 2015 remuneration decisions

### Group's total 2015 discretionary annual incentives

| | 2015 | 2014 |
|---|---|---|
| Total annual incentives[1] ($million) | **855** | 1,095 |
| Year-on-year change | **(22)%** | (5)% |

1. For continuing employees

### Executive director 2015 annual incentives, single figure of remuneration and proposed 2016-18 long-term incentive plan awards

| | W T Winters | | A M G Rees | | A N Halford | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Annual incentive ($000) | **0** | – | **0** | 0 | **0** | 866 |
| Annual incentive as a percentage of maximum | **0%** | – | **0%** | 0% | **0%** | 58% |
| Single total figure of remuneration (excluding pension and buy-out of incentives for new joiners) ($000) | **2,432** | – | **2,683** | 2,992 | **2,158** | 2,056 |
| 2016-18 LTIP award (face value) proposed to be granted in May 2016 ($000) | **8,435** | – | **0** | – | **5,037** | – |
| Proposed 2016-18 LTIP as a percentage of fixed remuneration | **200%** | – | **0%** | – | **200%** | – |

## Q&A on our new directors' remuneration policy

### Why are you changing the policy?

The Group has set out a clear strategy with a comprehensive set of actions to improve returns. We want to incentivise the new executive director team to deliver the new strategy. It is also impractical to meet the new PRA regulatory requirements within the existing policy.

As a consequence, we have reviewed our directors' remuneration policy and intend to propose a new policy at our AGM in May 2016. The policy will increase simplicity, transparency and long-term focus in the structure of directors' remuneration.

### How does the new policy support the strategy?

The targets for both the annual incentive and the LTIP will be a combination of financial and strategic measures, linked to the new strategy. This approach will ensure executive directors are incentivised to deliver the strategy both in the short-term and over the longer term.

The diagram below illustrates how the new policy supports the strategy.

**Incentive determination**

Incentivising directors to execute the strategy

**Incentive delivery**

Rewarding long-term sustained performance

| Strategic priorities | Annual incentive assessment | LTIP vesting based on long-term assessment | Deferral | Malus and claw-back |
|---|---|---|---|---|
| Financial performance and improved returns | ✓ | ✓ | • Delivery of annual incentive in combination with the LTIP will satisfy regulatory requirements<br>• Deferral of up to seven years<br>• Further holding requirement of six months post vesting (increasing to 12 months from the 2016 performance year)<br>• At least 60% of all incentives awarded subject to future performance<br>• LTIP in shares creates sustained performance linkage through share price alignment<br>• At least half of annual incentive delivered in shares | • Enables reclaim of award in a range of circumstances, including risk management and conduct |
| Secure the foundations | ✓ | ✓ | | |
| Lean and focused | ✓ | ✓ | | |
| Invest and innovate | ✓ | ✓ | | |

### What are the key features of the new policy?

- Incentivises executive directors to deliver the new strategy and improve shareholder returns
- Overall variable remuneration opportunity remains unchanged at 200 per cent of fixed remuneration
- Increases long-term focus (at least 60 per cent of variable remuneration subject to long-term performance measures)
- Ensures the policy is in line with changing regulatory requirements
- Provides transparency to key decisions made by the Committee, including how annual incentives are determined (using an annual scorecard) and the vesting of LTIP awards (based on three-year performance measures)
- Performance assessed on both short- and long-term basis

### How will the policy be implemented?

Reflecting the Group's circumstances, the Committee will focus incentives on the LTIP over a multi-year period during the early years of the turnaround.

The LTIP opportunity will be higher in the early years of the policy (and always higher than the annual incentive opportunity), i.e. 200 per cent of fixed remuneration in 2015, 160 per cent in 2016 and 120 per cent for 2017 onwards.

This approach ensures executive directors are incentivised to deliver the strategy and are aligned with long-term returns for shareholders, while allowing for the reintroduction of annual performance measures to ensure short-term performance is also robustly managed.

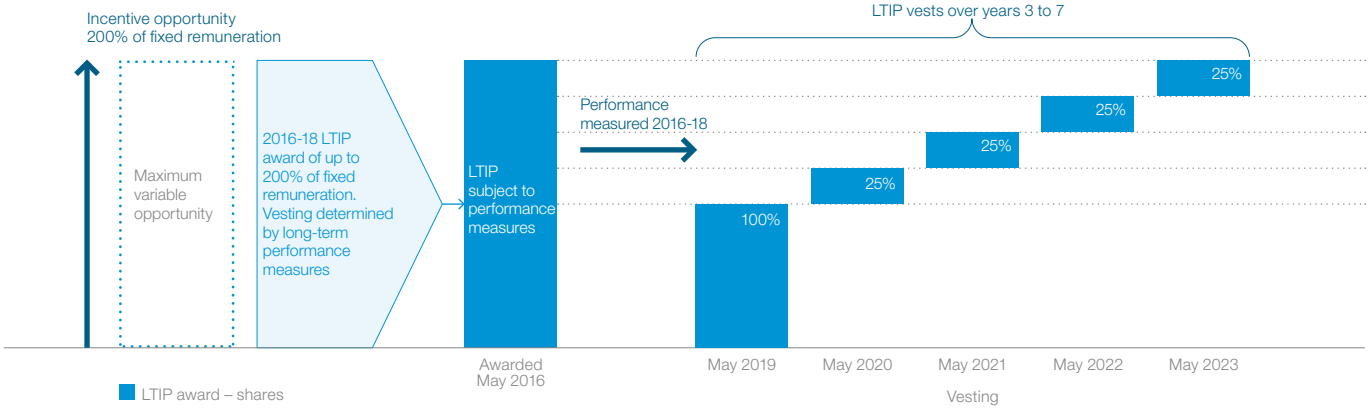
| Performance year | Annual incentive maximum (as percentage of fixed) | LTIP performance period | LTIP maximum (as percentage of fixed) | Comments |
|---|---|---|---|---|
| 2015 | – | 2016-18 | 200% | Creates strong initial incentive to align with timeframe of turnaround and reflects poor 2015 performance |
| 2016 | 40% | 2017-19 | 160% | Reintroduces element of annual incentive but retains focus on long-term reward given stage in turnaround |
| 2017 onwards | 80% | 2018-20 | 120% | Revert to standard combination of annual and long-term financial and strategic goals |

### What awards are being made now?

Given the Group's financial performance, the Committee decided that there would be no payment of annual incentives for 2015. To incentivise the new executive director team and align them with the turnaround, the Committee recommended a 2016-18 LTIP award of 200 per cent of fixed remuneration under the proposed policy.

The LTIP will be a share award subject to forward-looking performance measures, measured over three years i.e. for May 2016 awards, performance will be measured over 2016-18 inclusive. The vesting will be over seven years, 50 per cent after three years and the balance evenly over four to seven years. Shares will be subject to a six-month holding period after vesting.

The performance measures will be relative TSR, RoE with a capital underpin, and a combination of strategic measures, focused on the delivery of the new strategy. Exhibiting an appropriate level of individual values and conduct will be a gateway performance measure for the vesting of the LTIP award.

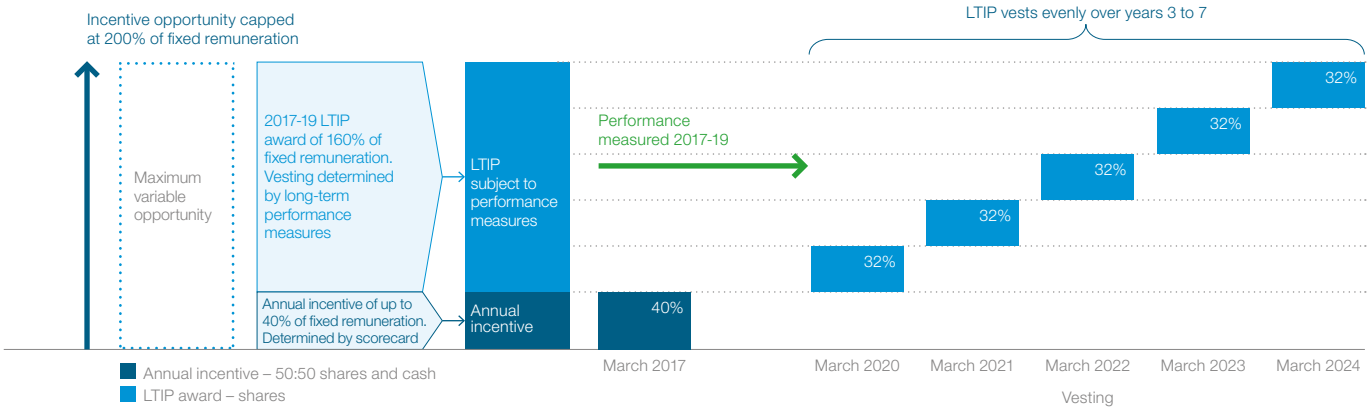



## What is the plan for 2016 and 2017?

To support in-year incentivisation for the execution of the strategy, for 2016 the annual incentive will be reintroduced at a maximum of 40 per cent of fixed remuneration. The LTIP opportunity will be a maximum of 160 per cent of fixed remuneration, granted in March 2017. Following this, the normal implementation of the policy is expected to take effect from 2017 onwards, with the annual incentive opportunity a maximum of 80 per cent of fixed remuneration and the LTIP opportunity a maximum of 120 per cent of fixed remuneration.

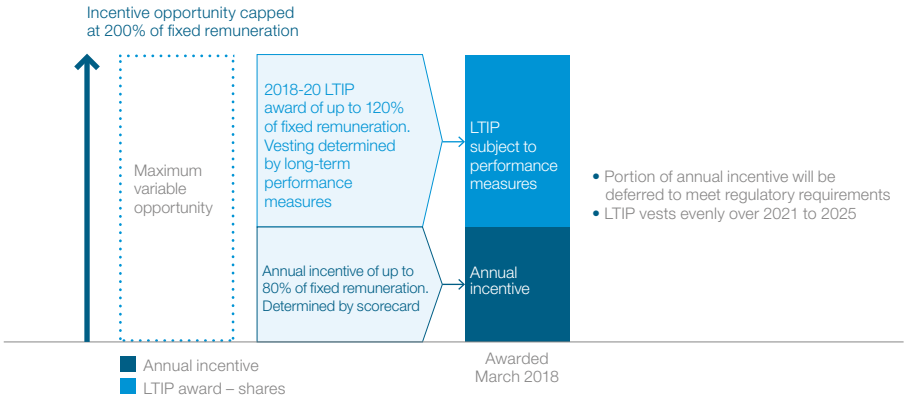
Details of the annual incentive scorecard are set out on page 126. For 2016, the annual incentive will be paid up front with 50 per cent paid in shares subject to a one-year holding period, and will be subject to claw-back for 10 years.

### 2016 remuneration structure




The LTIP granted in March 2017 will vest in five equal tranches from March 2020 to March 2024, subject to performance between 2017 and 2019.

### 2017 remuneration structure



# Directors' remuneration policy

## Consideration of shareholder views

The Committee Chair maintains regular contact with the Group's major shareholders about remuneration and ensures the Committee is kept informed of their views.

In light of the outcome of the vote on the directors' remuneration policy at the AGM in May 2014, the Committee sought to address shareholders' concerns in relation to that policy. Their feedback was reflected in the Committee's decisions in relation to how variable remuneration was delivered in 2014 and how the policy was operated in 2015. For example, by introducing a new scorecard and increasing the proportion of variable remuneration subject to performance measures.

Since the AGM in May 2015, the Committee has continued to consult with shareholders representing over half of the share register, and meeting representative bodies and proxy voting bodies, with a view to introducing a new directors' remuneration policy once the regulatory position was clearer. Shareholders' feedback has been reflected in the new remuneration policy, in particular by ensuring the variable remuneration structure is simpler and reflects long-term performance.

The Committee did not consult with employees when determining the directors' remuneration policy. The Committee reviews annually the remuneration trends across the Group, including the relationship between executive directors' remuneration and the remuneration of other Group employees. The Committee oversees the remuneration structures for material risk-takers and works with the Human Resources team to ensure consistency of approach throughout the Group and compliance with relevant legislation and regulation.

## Key features and changes to the directors' remuneration policy

| Component | Previous policy | Key features and changes to the policy for implementation in 2016 |
|---|---|---|
| **Fixed remuneration** | • Comprises salary, pensions and benefits, and fixed pay allowances (FPAs)<br>• FPAs are paid in shares subject to a holding period and released to executives 20 per cent per year over five years | • No substantive changes. The terms of FPAs will be amended to align with regulatory requirements, in particular so that the amount may only be changed on a change of role |
| **Variable remuneration structure and award levels** | • The Committee uses a balanced scorecard to determine the proportion of maximum variable remuneration to be awarded<br>• Scorecard aligned to strategic priorities (50 per cent financial and 50 per cent other strategic priorities). Measures and weightings to be disclosed in advance<br>• Retrospective disclosure of specific targets and assessment against those targets<br>• Awards will be paid in shares over five years<br>• No cash element | • Variable remuneration will be considered in two distinct parts, annual incentive and LTIP:<br>• Annual incentive:<br>– Performance scorecard based on a combination of financial performance and strategic measures, measured over a one-year period<br>– Delivered as a combination of cash, shares with a holding period and deferred shares<br>• LTIP:<br>– Delivered in shares<br>– Performance assessed against three-year performance targets<br>– Vesting over three to seven years<br>• The delivery of the annual incentive in combination with the LTIP will satisfy regulatory deferral requirements |
| **Variable remuneration proportion subject to future performance** | • A total of 50 per cent of the variable remuneration opportunity made up of:<br>– 25 per cent of variable compensation by face value delivered in performance shares<br>– 25 per cent delivered in the form of deferred shares over three and five years subject to a three-year financial underpin | • LTIP will comprise a minimum of 60 per cent of the variable remuneration opportunity<br>• LTIP vesting will be subject to stretching future performance conditions, measured over at least three years |

| Component | Previous policy | Key features and changes to the policy for implementation in 2016 |
|---|---|---|
| **Long-term performance targets** | • Performance share award measures are earnings per share (EPS) growth, average return on risk-weighted assets (RoRWA), and relative total shareholder return (TSR)<br>• Underpin shares have performance targets based half each on EPS and RoRWA, acting as a hurdle which must be exceeded for the relevant portion of the award to vest | • Performance measures for LTIP awards granted in 2016 will be RoE (with a CET1 underpin), relative TSR and a combination of strategic long-term measures |
| **Claw-back** | • Claw-back applies to variable remuneration for seven years from award and may be extended | • Claw-back can be extended to 10 years from award in certain circumstances |

## Remuneration policy for executive directors

The table below sets out the new proposed directors' remuneration policy from the date of the Group's AGM in May 2016 and beyond.

### Fixed remuneration

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **Salary**<br>Support the recruitment and retention of executive directors, recognising the size and scope of the role and the individual's skills and experience<br>Set at a level, together with other fixed remuneration, that enables the Group to operate fully flexible variable remuneration | • Reviewed annually with increases generally applying from April<br>• When determining salary levels, consideration is given to the following:<br>– The size and scope of the role<br>– The individual's skills and experience<br>– Pay at international banks of a similar size and international scope<br>– Pay within large UK-listed companies (including the major UK-listed banks) | • Increases may be made at the Committee's discretion to take account of circumstances such as:<br>– Increase in scope or responsibility<br>– Increase to reflect the individual's development in role (e.g. for a new appointment where salary may be increased over time rather than set directly at the level of the previous incumbent or market level)<br>– Alignment to market-competitive levels<br>– Consideration to increases given in the context of salary increases across the Group<br>• There are no performance measures |
| **Fixed pay allowances**<br>Provide a market competitive level of fixed remuneration appropriate for the role and the individual's skills and experience | • May be withdrawn or amended on a change in role or termination of employment and having regard to relevant remuneration regulations<br>• Enable the Group to deliver total fixed pay which is competitive and appropriate for the role, and which enables a competitive total remuneration when added to other elements of fixed remuneration and variable remuneration<br>• Are not pensionable and do not count towards other benefits which are calculated by reference to salary<br>• Will be paid in shares on an annual basis (or any other frequency that the Committee considers to be appropriate) and the shares will be subject to a holding period set by the Committee, currently five years with 20 per cent released annually<br>• Dividends are paid on the shares during the holding period | • FPAs will be set at an appropriate level for the role, subject to a maximum of one times salary |

**Fixed remuneration** continued

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **Benefits**<br>Provide a competitive benefits package that is consistent with Group values and supports executives to carry out their duties effectively | • A range of benefits may be provided, including standard benefits such as holiday and sick pay, and may also include the provision of a benefits cash allowance, a car and driver (or other car-related service), private medical insurance, permanent health insurance, life insurance, financial advice and tax preparation and tax return assistance<br>• Additional benefits may also be provided where an executive director is relocated or spends a substantial portion of their time in more than one jurisdiction for business purposes. Benefits may include, but are not limited to, relocation, shipping and storage, housing allowance, education fees and tax and social security costs<br>• Other benefits may be offered if considered appropriate and reasonable by the Committee<br>• Executive directors are reimbursed for expenses, such as travel and subsistence and any associated tax incurred in the performance of their duties. In addition, if executive directors incur tax charges when travelling overseas in performance of their duties, these costs will be met by the Group<br>• Executive directors may from time to time be accompanied by their spouse or partner to meetings/events. The costs (and any associated tax) will be met by the Group | • The maximum opportunity for benefits depends on the type of benefit and the cost of providing it, which may vary according to the market, individual circumstances and other factors<br>• Set at a level which the Committee considers a sufficient level of benefit based on the role and individual circumstances |
| **Pension**<br>The pension arrangements comprise part of a competitive remuneration package and facilitate long-term retirement savings for directors | • Normally paid as a cash allowance or contribution to a defined contribution scheme<br>• Pension contributions may also be made in lieu of any waived salary (and the cash amount of any annual incentive)<br>• A Defined Benefit (DB) scheme exists and is closed to new entrants but continues to accrue benefits for existing members. Members of the DB scheme can opt for an individually costed pension allowance on a broadly cost-neutral basis to the Group for future service | • An annual pension allowance or contributions of up to 40 per cent of salary is payable<br>• The Committee will continue to review the level of pension allowance used for the recruitment of future executive directors<br>• Under the closed DB scheme a pension of one-thirtieth of final salary for each year of service is payable at the age of 60 |

## Variable remuneration

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **Annual incentive**<br>Performance-based remuneration linked to measurable performance criteria<br><br>Ensures a market-competitive remuneration package<br><br>Links total remuneration to achievement of the Group's strategy in the short term | • Annual incentive awards are determined annually based on Group and individual performance<br>• Annual incentives are delivered as a combination of cash, shares subject to holding requirements and deferred shares (for example, to meet requirements under relevant remuneration regulations)<br>• Deferral proportions and vesting profiles will be structured so that, in combination with any LTIP award:<br>– The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent)<br>– The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (pro rata over years three to seven after award from 1 January 2016)<br>• Dividend or dividend equivalents accrue on deferred annual incentive awards and are paid on vesting, subject to the extent permitted by the relevant remuneration regulations<br>• The Committee can, in specified circumstances, apply malus or claw-back to all or part of any annual incentive awards. Details on how malus and claw-back operate currently are provided on page 137<br>• Deferred annual incentive awards will be granted as conditional share awards or nil-cost options:<br>– The Committee may apply discretion to adjust the vesting of deferred annual incentive awards and/or the number of shares underlying a deferred annual incentive award on the occurrence of corporate events and other reorganisation events | • The maximum value of an annual incentive award granted to any executive director cannot exceed 80 per cent of that executive director's fixed pay. For this purpose, annual incentive awards may be valued in line with the relevant remuneration regulations<br>• Annual incentive awards can be any amount from zero to the maximum<br>• The determination of an executive director's annual incentive is made by the Committee based on an assessment of a balanced scorecard containing a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the scorecard. The measures, individual weightings and targets will be set annually by the Committee<br>• The targets, together with an assessment of performance against those targets, will be disclosed retrospectively<br>• Discretion may be exercised by the Committee to ensure that the annual incentive outcome is a fair and accurate reflection of business and individual performance and any risk-related issues (but it will not exceed the maximum opportunity) |

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **LTIP**<br>Performance-based remuneration linked to measurable, long-term performance criteria<br><br>Ensures a market-competitive remuneration package<br><br>Links total remuneration to achievement of the Group's long-term strategy | • LTIP awards are granted annually, with award levels set to provide appropriate levels of long-term incentives to executive directors, with performance of the Group and the individual considered in determining the award level<br>• LTIP awards are delivered in shares and may be subject to holding requirements (for example, to meet the relevant remuneration regulations)<br>• Vesting profiles will be structured so that no LTIP award vests before the third anniversary of grant and in combination with any annual incentive award:<br>– The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent)<br>– The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (currently pro rata over years three to seven after award)<br>• Dividend or dividend equivalents accrue on LTIP awards and are paid subject to the satisfaction of any long-term performance measures, subject to the extent permitted by the relevant remuneration regulations<br>• The Committee can, in specified circumstances, apply malus or claw-back to all or part of any LTIP awards. Details on how malus and claw-back operate currently are provided on page 137<br>• LTIP awards will be granted as conditional share awards or nil-cost options:<br>– The Committee may apply discretion to adjust the vesting of LTIP awards and/or the number of shares underlying an LTIP award on the occurrence of corporate events and other reorganisation events | • The maximum value of an LTIP award granted to any executive director cannot, in combination with the annual incentive opportunity in respect of any particular year, exceed 200 per cent of that executive director's fixed remuneration. For this purpose LTIP awards may be valued in line with the relevant remuneration regulations<br>• The Committee will, for each year, determine the split of the overall variable remuneration opportunity between the LTIP award and annual incentive opportunity at the start of the year and disclose this split in advance. The maximum LTIP award will form at least 120 per cent of fixed remuneration (i.e. at least 60 per cent of the maximum variable remuneration opportunity for any financial year), so that the majority of the variable remuneration opportunity is based on long-term performance<br>• LTIP awards can be any amount from zero to the maximum<br>• LTIP awards will be subject to long-term performance measures, measured over a period of at least three years<br>• The long-term performance measures may be a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the performance measures. Weightings and targets will be set in advance of each grant by the Committee and disclosed prospectively and performance against those measures will be disclosed retrospectively. For financial measures, vesting will be on a sliding-scale basis between threshold and maximum with no more than 25 per cent vesting at threshold performance |

### Other remuneration

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **Sharesave**<br>Provide an opportunity to invest voluntarily in the Group | • Sharesave is an all-employee plan where participants (including executive directors) are able to open a savings contract to fund the exercise of an option over shares<br>• The option price is set at a discount of up to 20 per cent of the share price at the date of invitation, or such other discount as may be determined by the Committee<br>• An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues) | • Savings per month of between £5 and the maximum set by the Group (currently £250) |
| **Legacy arrangements**<br>Honour existing payments | • Any previous commitments or arrangements entered into with current or former directors will be honoured, including remuneration arrangements entered into under the previously approved directors' remuneration policy | • In line with existing commitments |

## Notes to the remuneration policy for executive directors

### Committee's judgement and discretion

In addition to assessing performance and making judgements on the appropriate levels of annual incentive awards and LTIP awards, the Committee has certain operational discretions that it may exercise when considering directors' remuneration, including but not limited to:

i. Determining whether a leaver is an eligible leaver under the Group's share plans

ii. Amending LTIP performance measures following a corporate event to ensure a fair and consistent assessment of performance

iii. Deciding whether to apply malus or claw-back to an award

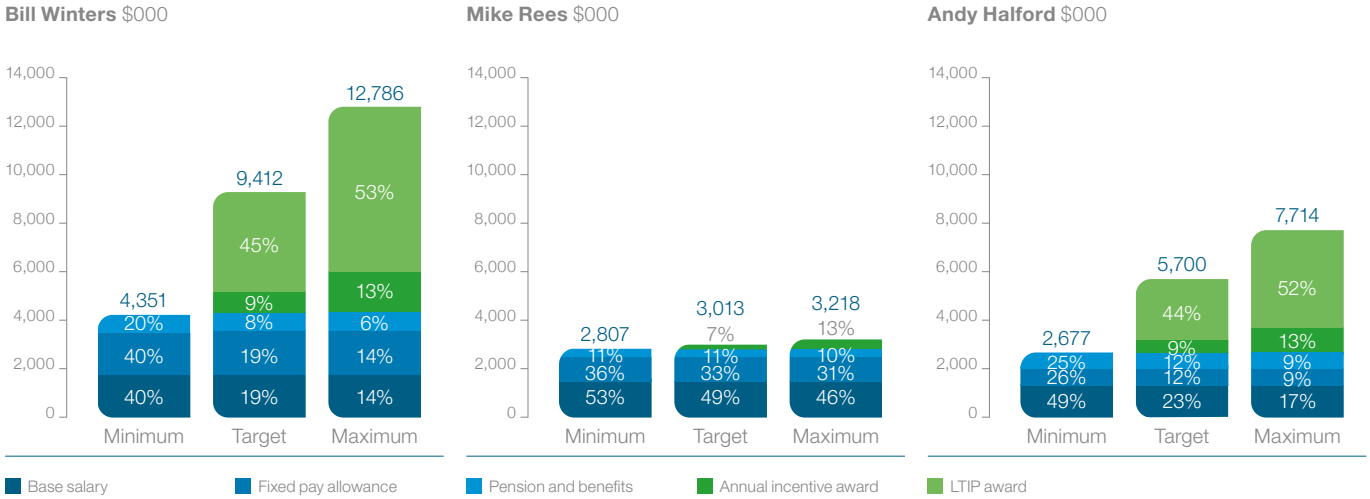
Where such discretion is applied this will, where appropriate, be explained in the next directors' remuneration report.

### Ability for Committee to amend the policy for emerging and future regulatory requirements

The Committee also retains the discretion to make reasonable and proportionate changes to the remuneration policy if the Committee considers this appropriate in order to respond to changing legal or regulatory requirements or guidelines (including but not limited to any PRA revisions to its remuneration rules and the EBA's remuneration guidelines). This includes the ability to make administrative changes to benefit the operation of the remuneration policy and/or to implement such changes ahead of any formal effective date, ensuring timely compliance. Where proposed changes are considered by the Committee to be material, the Group will consult its major shareholders. Any changes would be formally incorporated into the policy when it is next put to shareholders for approval.

## Illustration of the application of the remuneration policy in respect of 2016

The charts below provide an illustration of the potential outcomes under the Group's proposed remuneration policy being put to shareholders for approval at the AGM in May 2016. The charts show the outcomes that could result for each of the executive directors in three performance scenarios: minimum, target and maximum.




1. Benefits assumed as 2015 annualised figures. Any actual fixed pay numbers in 2016 will be dependent on exchange rates, the cost of benefits and final pension valuation
2. Minimum performance assumes no annual incentive is awarded or LTIP award is granted
3. Target performance assumes annual incentive at 20 per cent of fixed pay and an LTIP award of 160 per cent of fixed pay is granted, of which 62.5 per cent vests (other than to Mike Rees whose annual incentive is on a pro rata basis reflecting time due to be served as an executive director during 2016 and who will not be granted an LTIP award)
4. Maximum performance assumes annual incentive at 40 per cent of fixed pay and an LTIP award of 160 per cent of fixed pay is granted and vests in full (other than to Mike Rees whose annual incentive is on a pro rata basis reflecting time due to be served as an executive director during 2016 and who will not be granted an LTIP award)
5. No share price growth has been assumed

## Remuneration approach on recruitment of an executive director

The Group's approach to remuneration reflects the fact that many of its employees bring international experience and expertise and that the Group recruits from a global marketplace. The Committee's approach to recruitment is to pay competitive remuneration that reflects the Group's international nature and enables it to attract and retain candidates.

Any new executive directors' remuneration package would include the same elements and be subject to the same maximums as those of the existing executive directors, as summarised below.

| Policy | Details |
|---|---|
| **Salary** | • Set to reflect the role and the skills and experience of the candidate |
| **Fixed pay allowance** | • Up to 100 per cent of salary |
| **Benefits** | • Dependent on circumstances but typically includes benefits allowance, car and driver (or other car-related service), private medical insurance, permanent health insurance, life insurance, financial advice and, for international hires, expatriate benefits |
| **Pension** | • Up to 40 per cent of salary and subject to a review of market practice and the appropriate level for any new executive directors |
| **Variable remuneration** | • Dependent on circumstances but no more than 200 per cent of fixed remuneration |
| **Buy-out awards** | • The Committee may consider buying out forfeited remuneration and forfeited opportunities and/or compensating for losses incurred as a result of joining the Group subject to proof of forfeiture or loss<br>• The value of any buy-out award will not exceed, in broad terms, the value of the remuneration forfeited<br>• Any award will be structured within the requirements of the applicable remuneration regulations, and will be no more generous overall than the remuneration forfeited in terms of the existence of performance measures, timing of vesting and form of delivery<br>• The value of buy-out awards is not included within the maximum variable remuneration level where it relates to forfeited remuneration from a previous role or employer |
| **Legacy matters** | • Where a senior executive is promoted to the Board, his or her existing contractual commitments agreed prior to his or her appointment may still be honoured in accordance with the terms of the relevant commitment, including vesting of any pre-existing deferred or long-term incentive awards |

## Executive directors' contracts and payments on loss of office or change of control

The Group's approach to executive directors in respect of notice periods and payments on loss of office and change of control reflects market practice and is set out below. In the event of termination for gross misconduct, no notice is given and no payments will be made.

| Policy | Details | Other provisions |
|---|---|---|
| **Executive directors' service contracts**<br>Maximum of 12 months' notice from the company and the executive director | • May be required to work and/or serve a period of garden leave during the notice period and/or may be paid in lieu of notice if not required to remain in employment for the whole notice period | N/A |
| **Compensation for loss of office in service contracts**<br>Dependent on an individual's contract but in any event no more than 12 months' salary, FPAs, pension and benefits | • Payable quarterly (other than FPAs, which are paid annually) and subject to mitigation if the executive director seeks alternative employment<br>• Not in addition to any payment in lieu of notice or if the individual remains in employment for the whole notice period | • In the event of a settlement agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims, including potential entitlement to compensation in respect of statutory rights under employment protection legislation<br>• The Committee may also include in such payments reasonable reimbursement of professional fees, such as legal fees and tax advice (and any associated tax), in connection with such arrangements. Career transition support may also be provided |
| **Treatment of variable remuneration on termination**<br>Variable remuneration is awarded at the Committee's discretion | • Eligible leavers (as determined by the Committee) may be eligible for variable remuneration although there is no automatic entitlement. Typically any annual incentive amount awarded would be awarded on a pro rata basis, reflecting the period of service during the year<br>• The Committee has discretion to reduce the entitlement of an eligible leaver in line with performance and the circumstances of the termination | • On a change of control, typically the amount is pro rata to the period of service during the year. The Committee may alter the performance period, measures and targets to ensure the performance measures remain relevant but challenging |
| **Treatment of unvested awards on termination under the share plan rules**<br>The Committee has the discretion under the relevant plan rules to determine how eligible leaver status should be applied on termination, including the ability to award eligible leaver status in respect of some but not all of an executive director's unvested awards<br>The current approach is that eligible leaver status will generally be given in cases such as death, disability, retirement, redundancy and mutual separation. In addition, eligible leaver status will be given (other than in cases of termination for cause) where the date of termination is five years or more after the date of grant | • For eligible leavers, awards not subject to long-term performance measures vest in full over the original timescale and remain subject to the Group's claw-back arrangements. The Committee has discretion to reduce the level of vesting<br>• Awards granted from 2016 onwards and subject to long-term performance measures vest subject to those performance measures and on a pro rata basis (reflecting the proportion of the relevant financial performance period that the executive director has been employed) and remain subject to the Group's claw-back arrangements<br>• Vesting may be subject to non-solicit and non-compete requirements<br>• Awards lapse for employees not designated eligible leavers | • On a change of control, awards become exercisable and vest to the extent performance measures are met (either at the change of control or later). The Committee may allow awards to continue or roll-over in agreement with the acquirer, taking into account the circumstances and may alter the performance period, measures and targets to ensure the performance measures remain relevant |
| **Outside appointments**<br>To encourage self-development and allow for the introduction of external insight and practice | • Executive directors may accept appointments in other organisations subject to relevant Board approval. Executive directors tend to be limited to one non-executive directorship in another listed company. Fees may be retained by the executive director | N/A |

## Differences in remuneration policy for all employees

The table below summarises the entitlement of different categories of employees to the Group's components of remuneration.

| | Executive directors | Other material risk-takers | Other employees |
|---|---|---|---|
| **Salary, benefits and pension** | Yes | Yes | Yes |
| **Fixed pay allowances** | Yes (paid in shares) | No | No |
| **Discretionary variable remuneration** | Yes, delivered in the form of an annual incentive (cash, shares and deferred shares) and LTIP award (delivered in shares, subject to long-term performance measures) | Yes, may be delivered in the form of an annual incentive (paid in cash up to certain limits and the balance is deferred in shares and/or cash) and/or LTIP award (delivered in shares, subject to long-term performance measures) | Yes, most employees are eligible to be considered for an annual incentive (paid in cash up to certain limits and the balance is deferred in shares and/or cash) and/or LTIP award (delivered in shares, subject to long-term performance measures) |

## Chairman and independent non-executive directors' remuneration policy

### Fees and benefits

| Element and purpose in supporting the Group's strategic objectives | Operation | Additional detail including maximum value and performance measures |
|---|---|---|
| **Fees**<br>Attract a Chairman and independent non-executive directors (iNEDs) who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation | • Fees are paid in cash or shares. iNEDs' post-tax fees may be used to acquire shares<br>• The Chairman and iNED fees are reviewed periodically. The Board sets iNED fees and the Committee sets the Chairman's fees. The Chairman and iNEDs excuse themselves from any discussion on their fees | • Overall aggregate base fees paid to all iNEDs will remain within the current limit of £1.5 million as stated in the Articles of Association<br>• Fees are set at a level which reflect the duties, time commitment and contribution which are expected from the Chairman and iNEDs<br>• Fees are reviewed and appropriately positioned against those for the Chairman and iNEDs in banks and other companies of a similar scale and complexity<br>• There are no recovery provisions or performance measures |
| **Benefits**<br>Attract a Chairman and iNEDs who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation | • The Chairman is provided with benefits associated with the role, including a car and driver and private medical insurance, permanent health insurance and life insurance. Any tax costs associated with these benefits is paid by the Group<br>• The Chairman and iNEDs are reimbursed for expenses, such as travel and subsistence (and including any associated tax), incurred in the performance of their duties<br>• The Chairman and iNEDs may, from time to time, be accompanied by their spouse or partner to meetings/events. The costs (and any associated tax) are paid by the Group<br>• iNEDs are paid fees for chairmanship and membership of board committees and for the senior independent director role<br>• The Chairman and iNEDs may receive tax preparation and tax return assistance | • There are no performance measures |

### Approach on recruitment for Chairman or independent non-executive director

Fees and benefits for a new Chairman or iNED will be in line with the Chairman and independent non-executive directors' remuneration policy.

### Service contracts and policy on payment for loss of office for the Chairman and independent non-executive directors

The Chairman is provided a notice period of up to 12 months and is entitled to a payment in lieu of notice in respect of any unexpired part of the notice period at the point of termination.

iNEDs are appointed for a period of one year unless terminated earlier by either party with three months' written notice. No entitlement to the payment of fees or provision of benefits continues beyond termination of the appointment and iNEDs are not entitled to any payments for loss of office (other than entitlements under contract law, such as a payment in lieu of notice if notice is not served).

## 2015 Group total variable remuneration

### Determining 2015 discretionary annual incentives

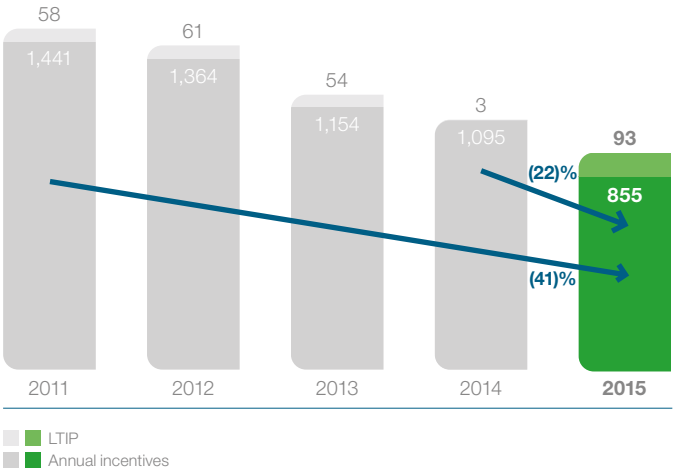
In determining 2015 annual incentives, the Committee considered the following factors:

- Recognition that the Group's financial performance in 2015 has been poor, and as a consequence the share price has suffered and the dividend cut. In November 2015, the Group Chief Executive set out the Group's new strategy with the intention of addressing the declining performance. The Group has taken a comprehensive range of actions including raising capital, reducing risk concentrations, managing expenses and laying out a business investment programme
- That the historical remuneration levels of the Group have generally been below competitive levels in the markets in which it operates and that this position has deteriorated further over the past few years. This has in part contributed to a rise in the level of voluntary attrition to 16.7 per cent (2014: 15.1 per cent)
- The need to reposition remuneration in the Group to contribute to improving shareholder returns, whilst enabling the Group to ensure that good performers are paid competitively
- The material risk events that have impacted the Group in 2015

In determining the Group's total annual incentives, the Committee has had to use its judgement to establish the right balance between the financial performance of the Group and our ability to attract and retain talent that will drive the Group's new strategy.

On this basis, the Committee determined that the total annual incentives for continuing employees for 2015 should be $855 million, 22 per cent lower than in 2014, as shown below. The Committee concluded that any lower amount would present a material risk to the ability of the Group to make appropriate and competitive awards. The total annual incentives of the Group have steadily reduced over the past five years.

**Incentives trend 2011 to 2015** $million




The value of the 2015 long-term incentive awards will be determined by Group performance over the period 2016 to 2018. Incentive awards were also made to individuals who left the Group during 2015, as part of restructuring, who were in service for at least nine months of the year, totalling $45 million.

### Relative expenditure on pay and allocation of earnings

When considering Group variable remuneration the Committee considers shareholders' concerns about relative expenditure on pay and makes the determination on the allocation of earnings to expenditure on pay carefully. The Committee concluded that the Group has approached this allocation in a disciplined way over the past five years.

### Allocation of the Group's earnings between stakeholders

| | Actual | | | | | Allocation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 $million** | 2014 $million | 2013 $million | 2012 $million | 2011 $million | **2015 %** | 2014 % | 2013 % | 2012 % | 2011 % |
| Staff costs[1] | **7,119** | 6,788 | 6,570 | 6,492 | 6,630 | **71** | 63 | 61 | 62 | 64 |
| Corporate taxation including levy | **1,113** | 1,896 | 2,099 | 2,040 | 2,007 | **11** | 18 | 20 | 20 | 19 |
| Paid to shareholders in dividends | **1,778** | 2,095 | 2,062 | 1,866 | 1,675 | **18** | 19 | 19 | 18 | 17 |

1. Staff costs include redundancy and other restructuring expenses. See page 259 for more detail.

The Committee has included the amount of corporate tax, including the bank levy, because it is a significant payment and illustrates the Group's contribution through the tax system.

## Executive directors' variable remuneration awarded in respect of 2015 (audited)

### Approach to determining individual variable remuneration awards

The Committee's performance management framework was outlined in the 2014 directors' remuneration report. At its meetings in December 2015 and January 2016, the Committee considered Group performance, the performance of each executive director and risk and control-related matters (with input from Group Risk and other control functions), and made its determinations.

The Committee followed a three-step process for determining annual incentive awards:

Step 1: consider eligibility

Step 2: evaluate performance against the Group's priorities

Step 3: assess personal performance and finalise annual incentive and LTIP awards for each executive director

#### 1. Consider eligibility

The Committee considered the Group's risk position and its forward-looking capital position, and concluded that it was appropriate to consider the granting of incentives.

#### 2. Evaluate performance against the Group's priorities

At the end of 2015, the Committee reviewed both financial performance and achievement against the Group's strategic priorities, as outlined at the start of the year in the 2015 annual incentive scorecard, published in last year's remuneration report. The Committee's assessment of performance against the targets is disclosed in the table on page 117.

In relation to financial performance, the Committee concluded that the financial performance had been poor and did not meet the expectations set at the start of the year. The Committee noted that progress had been made against the strategic aspirations and the other Group priorities.

However, in light of the Group's broader performance, the Committee concluded that it would not be appropriate to award annual incentives in 2015 to executive directors, but that there was a need to incentivise the new executive director team so LTIP awards should be granted, subject to shareholder approval of the proposed remuneration policy.

| Performance measures | Weighting | Target[1] | Assessment of achievement | Scorecard outcome |
|---|---|---|---|---|
| **Financial measures** | | | | |
| Underlying pre-tax operating profit | 12.5% | $4.63 billion | $834 million | 0% |
| Normalised EPS growth | 12.5% | 127 cents | (6.6) cents | 0% |
| RoRWA | 12.5% | 0.94% | 0.3%[2] | 0% |
| CET1 | 12.5% | Maintain prudent buffer over regulatory capital requirements. CET1 of 11.0% | 12.6%[2] | 12.5% |
| **Other strategic measures** | | | | |
| Client relationships | 20% | Deepen, broaden and selectively grow client relationships<br>Leverage the network more effectively | 20.2% of clients delivered 80% of income (2014: 19.7%). However, where more progress was sought in leveraging the network: a) average multi-product ratio was 6.3 (target range was 6.0-6.5); and b) average multi-market ratio was 2.9 (outside target range of 3.0-3.5) | 5% |
| Organisational effectiveness and efficiency | 20% | Deliver productivity improvements of at least $400 million<br>Deliver transformation in the Retail Clients segment | Delivered initiatives in the region of $440 million of savings by the end of the year<br>Retail Clients transformation progressed well in 2015, with approximately $200 million of saves (via headcount reduction, branch rationalisation, marketing cost saves) delivered. Closure of the Consumer Finance Business, product rationalisation and centralisation of Retail Analytics were other key achievements | 12.5% |
| People, culture and conduct | 10% | Satisfactory progress made on the conduct agenda<br>Successful execution of the 2015 milestones under the Group's Financial Crime Risk Mitigation Programme | Programme deliverables largely on track including successful delivery of new code of conduct and defining Four Pillar Group Conduct Framework. As at 31 December, 98.5% of staff had committed to the Code<br>Financial crime risk mitigation programme delivered several key milestones in 2015. Initial deployments of improved systems/ controls completed in Q4 2015 for key processes including names screening and transaction screening. 2015 deliverables under Regulatory Orders were largely on target. Material residual execution risks remain | 5% |
| **Total** | **100%** | | | **35%** |

1. A maximum/minimum performance threshold of +/- 10 per cent of the target was set for the financial performance measures other than for CET1; in the case of CET1 if the ratio was below 11 per cent the outcome would be zero. The impact on CET1 of the rights issue announced in November 2015 is estimated to be in the order of 1.7 per cent
2. Unaudited

### 3. Assess personal performance and finalise awards

The Committee noted the individual performance of each executive director and the performance in areas of personal responsibility, notwithstanding the decision to make no incentive awards.

The Committee noted that Bill Winters had made a good start to his role. Since his appointment as Group Chief Executive in June, the Board had discussed and subsequently announced a new strategy that would result in significant changes in how the Group will be managed going forward. The Committee also noted that he had come in during a challenging period and had been critical to developing a clear plan of action and forming a new Management Team. The announcements in November would position the Group for improved RoE on a strengthened capital base.

The Committee agreed that, in his first full year with the Group, Andy Halford had made a significant contribution to prudent capital management, to the cost reduction programme and to the development of the new strategy of the Group.

Mike Rees has actively supported the work to refocus and transition the respective client and product groups under the new organisational model, making use of his knowledge of the Group and its markets. The Committee noted that he had been an important advisor to Bill Winters and the rest of the Management Team. He worked closely with Bill and Andy on the formulation and execution of the new strategy.

#### *Former executive directors*

Under the terms of their leaving agreements, both Peter Sands and Jaspal Bindra were eligible to be considered for a discretionary variable remuneration award. As the current executive directors would not be receiving any annual incentives, the Committee decided it would not be appropriate to make any awards to Peter and Jaspal. In reviewing their performance, the Committee noted that both had supported the transition to the new organisation positively and were professional in terms of the handover to their successors. Under the terms of his leaving agreement, V Shankar was not eligible to be considered for a discretionary variable remuneration award.

#### *Award of long-term incentives*

As outlined in the Chair's covering letter on page 100, to incentivise the new executive director team and align them with the turnaround, 2016-18 LTIP awards of up to 200 per cent of fixed remuneration are proposed under the remuneration policy being put to shareholders for approval at the AGM in May 2016, other than to Mike Rees who will be retiring from the Board on 30 April 2016.

The following table summarises the outcome of the Committee's decisions on annual incentive and LTIP awards for the 2015 performance year.

| | Current executive directors | | | Former executive directors | | |
|---|---|---|---|---|---|---|
| | W T Winters | A M G Rees | A N Halford | P A Sands | J S Bindra | V Shankar |
| Annual incentive ($000)[1] | 0 | 0 | 0 | 0 | 0 | N/A |
| Annual incentive as a percentage of the maximum[2] | 0% | 0% | 0% | 0% | 0% | N/A |
| 2016-18 LTIP award (face value) proposed to be granted in May 2016 ($000)[1] | 8,435 | 0 | 5,037 | N/A | N/A | N/A |
| Proposed 2016-18 LTIP as a percentage of fixed remuneration[2] | 200% | 0% | 200% | N/A | N/A | N/A |

1. The grant of LTIP awards is subject to shareholder approval of the proposed new remuneration policy at the Group's AGM in May 2016
2. Maximum variable remuneration is calculated as 200 per cent of fixed remuneration (defined as salary, FPA and pension)

### Long-term incentive plan awards to be granted in 2016

LTIP awards will be granted to Bill Winters and Andy Halford in 2016 following approval of the new directors' remuneration policy, with a face value of 200 per cent of fixed remuneration.

These LTIP awards will vest 50 per cent after the third anniversary of grant, with the balance vesting in four annual tranches thereafter, subject to meeting the following performance measures, measured after the third anniversary of grant.

### Performance measures for 2016-18 executive director long-term incentive plan

| Gateway requirement to be met in order for awards to vest | | | | |
|---|---|---|---|---|
| Appropriate level of individual values and conduct exhibited | | | | |
| **Performance measure** | **Weighting** | **Amount vesting (as % of total award)** | **Threshold performance target** | **Maximum performance target** |
| 1. RoE[1] plus CET1 underpin of 12% | One third | Maximum – 33.3%<br>Threshold – 8.3%<br>Below threshold – 0% | 7% | 10% |
| 2. Relative TSR against peer group | One third | Maximum – 33.3%<br>Threshold – 8.3%<br>Below threshold – 0% | Median | Upper quartile |
| 3. Strategic measures | One third | | | |
| a) Conduct and financial crime remediation | | Maximum – 33.3%<br>Minimum – 0%<br>Performance against each component of the scorecard will be assessed by the Committee using proof points to determine the percentage of the award that may vest | • Successfully execute Group's financial crime risk and other conduct-related mitigation and remediation programmes | |
| b) Secure the foundations | | | • Liquidate and exit identified non-strategic assets: $25 billion of risk-weighted (RWA) assets to nil by end of 2018 | |
| c) Get lean and focused | | | • Cost discipline: deliver $2.3 billion gross efficiency target<br>• Retail: progress towards achieving a cost income ratio of c.55% by 2020<br>• Restructure of Corporate & Institutional Banking and Commercial Banking: achieve $50 billion of RWA optimisation by 2018 | |
| d) Invest and innovate | | | • Private Banking and Wealth Management: grow assets under management by $25 billion<br>• Retail Banking: achieve over 40% of income from priority clients<br>• Deliver market share gains across Africa region<br>• Maintain leadership position on the internationalisation of renminbi | |

1. Normalised RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-affected basis, for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. This includes material one-off changes to valuation methodologies to align with market practice and restructuring charges. Normalised RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Remuneration Committee

The measures have been chosen to align with the new strategy and in consultation with shareholders. The equal weighting of the measures provides a balanced set of metrics, giving an appropriate focus on execution of the new strategy, investor interests and prudent risk-taking.

The target levels for LTIP awards are designed to be challenging but realistic. The Committee's starting point for determining target levels was to review the financial plan and the Group's strategic priorities.

As part of the remuneration policy review and setting of performance measures, the peer group used for the calculation of the relative TSR performance measure has been adjusted. The criteria used to select the peer group are companies with generally comparable business activities, comparable size or geographic spread to Standard Chartered or companies Standard Chartered competes against for investor funds and talent. In aggregate, the comparator group is intended to be representative of Standard Chartered's geographic presence and business operations. The constituents of the peer group shall continue to be reviewed annually. As a result of this review, the following changes were made (to the peer group listed on page 122):

- RBS and Unicredit were removed from the peer group
- ANZ (which has growing presence in Asian markets) and UBS (which has significant Corporate & Institutional, Private and Wealth businesses) were added

TSR will be measured for each company over the LTIP performance period, starting from the date of grant. TSR will be calculated in British pounds and data averaged over a month at the start and end of the three-year performance period from the date of grant.

The current intention of the Committee is that the performance measures for LTIP awards in March 2017 will be similar to those awards to be granted in 2016. However, the Committee will review the performance measures and targets again in advance of making awards in 2017 in respect of 2016 performance, including an assessment against continued alignment with the Group's priorities.

## Single total figure of remuneration for the executive directors (audited)

This table sets out salary, FPAs, benefits (including pensions) and one-off amounts (such as buy-out awards) received in 2015 and variable remuneration awards receivable in respect of 2015. LTIP awards, granted in 2013 did not vest (based on performance between 2013 and 2015). All figures are in $000s.

| | W T Winters[1] | | A M G Rees | | A N Halford | | P A Sands[2,3] | | J S Bindra[3,4] | | V Shankar[3,4] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Salary | **1,172** | – | **1,490** | 1,507 | **1,299** | 761 | **759** | 1,826 | **279** | 838 | **290** | 871 |
| Fixed pay allowances | **1,172** | – | **1,000** | 1,000 | **700** | 379 | **488** | 1,100 | **192** | 575 | **192** | 575 |
| Benefits | **88** | – | **193** | 182 | **159** | 49 | **230** | 289 | **353** | 965 | **245** | 653 |
| Annual incentive | **0** | – | **0** | 0 | **0** | 867 | **0** | 0 | **0** | 0 | **0** | 0 |
| Vesting of LTIP awards | **–** | – | **0** | 303 | **–** | – | **0** | 376 | **0** | 188 | **0** | 146 |
| **Subtotal** | **2,432** | **–** | **2,683** | **2,992** | **2,158** | **2,056** | **1,477** | **3,591** | **824** | **2,566** | **727** | **2,245** |
| Buy-out award (in shares) | **9,933** | – | **–** | – | **–** | 1,876 | **–** | – | **–** | – | **–** | – |
| Pension | **468** | – | **1,813** | 3,948 | **519** | 304 | **495** | 1,504 | **136** | 411 | **116** | 348 |
| **Total** | **12,833** | **–** | **4,496** | **6,940** | **2,677** | **4,236** | **1,972** | **5,095** | **960** | **2,977** | **843** | **2,593** |

1. Bill Winters joined the Group on 1 May 2015 and was appointed to the Board on 10 June 2015. The figures above include his remuneration from 1 May 2015
2. Peter Sands' remuneration is up to 10 June 2015, the date he stepped down from the Board
3. Information on leavers' remuneration arrangements since stepping down from the Board is included in the Payment for loss of office section on page 123
4. Jaspal Bindra's and V Shankar's remuneration is up to 30 April 2015, the date on which they stepped down from the Board

### Additional information on the fixed pay allowance figure in the single total figure table (audited)

FPAs are paid in shares, subject to a holding period and released over five years. The number of shares allocated is determined based on the monetary value of the allowance and the prevailing market price of the Group's shares on the date of allocation. FPAs are not variable remuneration, therefore, performance measures are not applicable.

### Additional information on the benefits figure in the single total figure table (audited)

All executive directors received private medical cover, life assurance, permanent health insurance, an allowance in respect of taxation advice and a car, and for some of the directors, the use of a company vehicle and driver for business purposes. Some executive directors use a Group car service for travelling and had spouse travel expense benefits. The Group paid the tax on these benefits.

The 2015 benefits figures shown are in respect of the 2014/15 tax year. This provides consistency with the reporting of similar benefits in 2014.

In 2015, Jaspal Bindra and V Shankar received accommodation benefits (of $256,241 and $178,730 respectively) as they were undertaking responsibilities in an international location, and in line with market practice, received certain expatriate benefits. The benefits figures for Jaspal Bindra and V Shankar have been restated from those shown in the 2014 directors' remuneration report (previously $933,511 and $645,414 respectively).

### Additional information on the 2014 incentives in the single total figure table (audited)

The annual incentive delivered to Andy Halford in respect of 2014 was delivered in shares. This was split between upfront shares and deferred shares, the latter vesting over three years. An LTIP award and underpin shares were also awarded. Any value from these will be disclosed in the single figure disclosure for the year in which they vest.

### Additional information on the vesting of long-term incentive plan awards in the single total figure table (Audited)

The LTIP awards granted in March 2013 were due to vest in March 2016, based on performance over the years 2013 to 2015. Performance measures were not met and so the awards lapsed. The details are shown below.

| Measures for LTIP awards granted in 2013 | Minimum | Maximum | Actual | Percentage of maximum vested |
|---|---|---|---|---|
| Total shareholder return (one-third weighting) | Median | Equal to or above fifth | Below 21st | 0% |
| Earnings per share growth (one-third weighting) | 15% | 30% | Negative | 0% |
| Return on risk-weighted assets (one-third weighting) | 1.5% | 1.7% | Below 1.5%[1] | 0% |
| Total | | | | 0% |

1. Unaudited

The average share price for the last three months of the 2014 financial year was used to determine the value of the LTIP awards (granted in 2012) which vested based on performance to the end of 2014. This has been restated from the figures shown in the 2014 directors' remuneration report using the share price on the date of vesting of 13 March 2015 of £9.55.

### Additional information on the buy-out award figure in the single total figure table (audited)

Bill Winters received a buy-out award in respect of shares forfeited as a consequence of leaving his former role to join the Group. The buy-out award takes the form of restricted shares with a face value of $9.93 million as at the date of grant (22 September 2015). These shares will vest (i.e. the restrictions will lift) in three equal tranches in September 2017, 2018 and 2019, subject to continued employment with the Group.

### Additional information on the pension figure in the single total figure table (audited)

Mike Rees is, and Peter Sands was, contractually entitled to participate in a DB pension plan, with a headline entitlement of one-thirtieth of salary for each year of service. The Committee continues to take into account the value of such benefits as part of total remuneration.

As disclosed in the 2013 directors' remuneration report, the increase in Mike Rees' salary in April 2014, following his change in role, gave rise to a material one-off increase in his accrued pension benefit. The 12-month averaging period for pensionable salary means that the increase in pension value will be reported over two years. Accordingly, in the 2015 pension figure of $1.81 million, $1.07 million relates to the increase in pensionable salary.

The increase in Peter Sands' pensionable salary in April 2014 gave rise to an increase of $148,991 in his accrued pension benefit in 2015.

Jaspal Bindra previously participated in the DB pension plan but in 2013 he elected to give up his future pension accrual and replace it with an individually costed pension allowance (of 49 per cent of salary), which was cost-neutral to the Group, and reflected the level of benefit given up. Jaspal's pension allowance was payable in cash.

Bill Winters received pension contributions and a cash allowance, which combined, equate to 40 per cent of his salary.

Andy Halford and V Shankar received cash allowances of 40 per cent of their salary.

### Total pension entitlements (audited)

The Group's approved DB pension plan is not open to new joiners but existing members continue to accrue additional rights. This arrangement is supplemented by the Group's unfunded unapproved plan for longer-serving executive directors and senior employees. Mike Rees and Peter Sands (while he remained an employee) continued to participate in both of these arrangements and their prospective DB entitlement as at 31 December 2015 are detailed below. The retirement age for executive directors is 60, and if a director retires before this, pension benefits are reduced for early payment.

| Director | Normal retirement date | Rights as at 31 December 2015[1] |
|---|---|---|
| A M G Rees | 13 February 2016 | $822,935 per annum |
| **Former executive directors** | | |
| P A Sands | – | $722,131 per annum |
| J S Bindra | – | $287,668 per annum |

1. Converted to US dollars based on an exchange rate of £0.6784 to one US dollar

## Current position on outstanding long-term incentive plan awards

The current position on vesting for all unvested LTIP and underpin share awards outstanding from 2014 and 2015 based on current performance and share price is set out in the table below.

| | | Total shareholder return | | | Earnings per share | | | Return on risk-weighted assets (three-year average) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Award type | Year of grant | Minimum (30% vesting) | Maximum (100% vesting) | Current status | Minimum (30% vesting) | Maximum (100% vesting) | Current status | Minimum (30% vesting) | Maximum (100% vesting) | Current status |
| LTIP | 2014 | Median | Equal to or above fifth | 0% vesting | 15% | 30% | 0% vesting | 1.5% | 1.7% | 0% vesting |
| | 2015 | | | 0% vesting | 15% | 35% | 0% vesting | 1.2% | 1.4% | 0% vesting |
| Underpin Shares | 2015 | N/A | N/A | N/A | N/A | 10% | 0% vesting | N/A | 1.1% | 0% vesting |

The comparator group for the TSR measure is set out below:

| | | | | |
|---|---|---|---|---|
| Banco Santander | Citigroup | ICBC | Royal Bank of Scotland | United Overseas Bank |
| Bank of America | Credit Suisse | ICICI | Société Générale | |
| Bank of China | DBS Group | JP Morgan Chase | Standard Bank | |
| Bank of East Asia | Deutsche Bank | Kookmin | State Bank of India | |
| Barclays | HSBC | Oversea-Chinese Banking Corporation | Unicredit | |

## New executive directors' and former executive directors' remuneration

### Recruitment arrangements for Bill Winters

In May 2015, Bill Winters joined the Group and was appointed as the new Group Chief Executive with effect from 10 June 2015. In line with market practice and, as would be expected in the recruitment of a senior individual of this nature, the remuneration package included a buy-out of share interests foregone by Bill in order to take up employment with the Group.

The Committee's approach in structuring the remuneration package, including the buy-out award, was to ensure that the structure was in accordance with the Group's policy on recruitment of an executive director. Furthermore, the Committee ensured that careful judgement was applied on where to position the Group relative to international banking peers so that Bill's remuneration was competitive, reflected his individual experience and was appropriate for such a role.

Each of the elements of Bill's ongoing remuneration package are summarised in the table below, followed by a description of his buy-out award:

| Element | Details |
|---|---|
| **Salary** | $1,757,335 |
| **Fixed pay allowances** | $1,757,335 paid in shares, released over five years |
| **Benefits** | Will be provided in accordance with the remuneration policy |
| **Pension** | 40 per cent of salary |
| **Variable remuneration** | Maximum variable remuneration opportunity of up to 200 per cent of fixed remuneration<br>No provisions for any guaranteed annual incentive or guaranteed variable remuneration amount in respect of 2015 were included in Bill's remuneration package<br>The absence of any guaranteed variable remuneration amount has enabled the Committee to retain the flexibility on the determination of the amount and structure of variable remuneration payable to him for 2015 |

On joining, Bill suffered an immediate loss in value by way of share interests foregone at his previous employer. It was agreed that Bill's entitlement to a buy-out award would be limited in his contract to the lower of: (i) an award with a maximum value of $9.93 million; and (ii) the value foregone at his previous employer.

The terms of his buy-out award were then determined following his appointment to the Board, giving careful consideration of the value foregone at his previous employer. The Group undertook a thorough process to quantify the value of the share interests forfeited which determined that the value foregone was in excess of $9.93 million. As such, the Committee approved a restricted share award of $9.93 million as at the date of grant (22 September 2015), the maximum agreed under the joining arrangements.

Although the value foregone by Bill was an actual immediate and measurable loss in value suffered by him, it was determined that the buy-out award would be granted in the form of restricted shares vesting in three equal portions after two, three and four years. The restricted shares will lapse if Bill ceases employment with the Group prior to the relevant vesting dates (other than in limited eligible leaver circumstances). This approach provides alignment with shareholders and retention. On the basis that no performance measures applied to the shares constituting the value foregone by Bill, no performance measures were attached to the vesting of the restricted shares.

As a result of the analysis carried out prior to the grant of the buy-out award, the Committee was satisfied that the buy-out award was significantly lower in value than the value of the share interests foregone at Bill's previous employer.

### Payments for loss of office (audited)

Peter Sands, Jaspal Bindra and V Shankar stepped down from the Board during the year. The remuneration they received when they were executive directors is set out in the single total figure table below. Specific details on the remuneration arrangements on leaving for Peter and Jaspal were included in the announcement to the London Stock Exchange of 26 February 2015, and for V Shankar in the announcement of 1 April 2015. They each received payments in the period from the date they ceased to be a director, in accordance with their contracts of employment, as set out below:

| | Peter Sands | Jaspal Bindra[1] | V Shankar |
|---|---|---|---|
| Date ceased to be an executive director | 10 Jun 2015 | 30 Apr 2015 | 30 Apr 2015 |
| Period payments made until | 31 Dec 2015 | 31 Dec 2015 | 11 Oct 2015 |
| Salary received | $952,990 | $558,952 | $388,771 |
| Fixed pay allowance | $612,500 | $383,333 | $239,583 |
| Benefits[2] | $85,711 | $710,523 | $297,176 |
| Pension | $716,478[3] | $272,597 | $155,508 |
| Statutory end of service gratuity per UAE employment law | – | – | $286,926 |
| Payment in lieu of notice (PILON) | $285,189[4] | – | – |
| Total | $2,652,868 | $1,925,405 | $1,367,964 |

1. Jaspal Bindra remains employed until 25 February 2016, the end of his 12-month notice period
2. In line with market practice, the Group paid for appropriate professional legal fees incurred by all directors in respect of finalising their termination arrangements, which amounted to $4,584 for both Peter and V Shankar and $5,770 for Jaspal. These amounts are included in the benefits figures above
3. Peter's pension entitlement was augmented by 56 days in lieu of the balance of his notice period. The pension figure provided is inclusive of this augmentation
4. PILON paid to Peter in December 2015 in lieu of the balance of his notice period and calculated based on 56 days' salary, cash allowance and the cost of life assurance and medical cover

In addition, the Committee exercised its discretion in accordance with the rules of the share plans, under which these directors held unvested awards, and determined that they should be treated as eligible leavers, and as such be allowed to retain any unvested share awards. These awards will continue to vest over the original vesting periods and remain subject to the application of malus and claw-back and the satisfaction of the performance measures. This discretion was exercised by the Committee after considering the nature of the directors' departure and such discretion has been exercised and reported in line with Stock Exchange of Hong Kong requirements.

### Payments to former executive directors (audited)

Richard Meddings and Steve Bertamini stepped down from the Board during 2014. They each received payments for the period from the date they ceased to be an executive director until 8 January 2015, in accordance with their contracts of employment and their 12-month notice periods. Richard received salary of $27,784, benefits of $29,565 and pension of $6,711. Steve received salary of $23,077, benefits of $172,867 (in line with his contract and as outlined in the Stock Exchange announcement of 9 January 2014, he and his family were entitled to relocation benefits at the end of employment) and pension of $8,423.

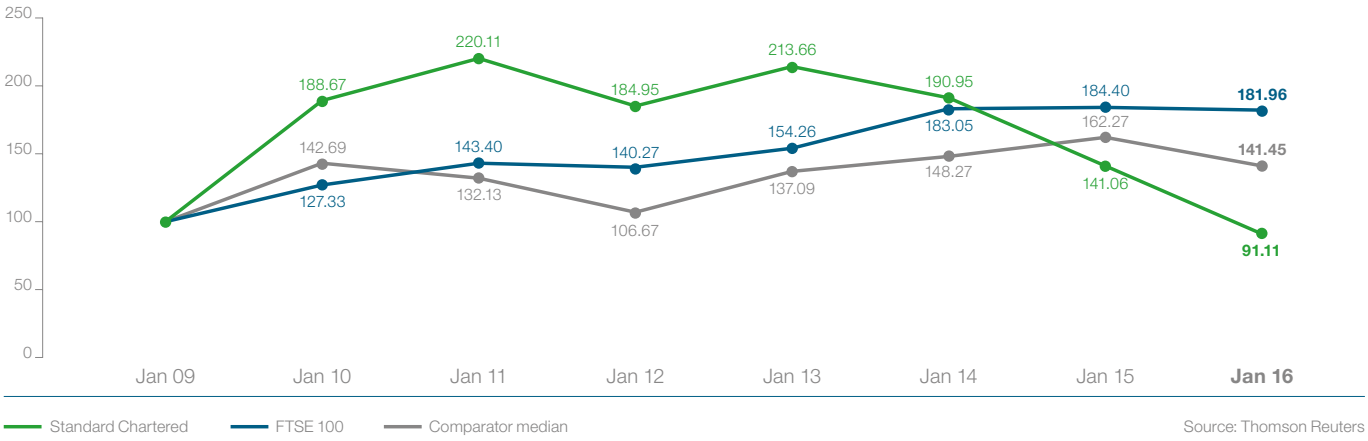
In addition, Richard and Steve were awarded shares under an LTIP in 2013, whose vesting was dependent on performance over the three years ended 31 December 2015. Performance measures were not met and so the awards will lapse.

## Group Performance versus the Group Chief Executive's remuneration

### Summary of performance

The graph below shows the Group's TSR performance on a cumulative basis over the past seven years alongside that of the FTSE 100 and the table below shows the historic levels of remuneration of the Group Chief Executive. The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns. Standard Chartered is a constituent member of the FTSE 100 Index and the London Stock Exchange is the principal exchange for the Group's shares. For illustrative purposes the Group's TSR performance against the peer banks that were part of the Group's performance share award comparator group in a particular year is also shown.

**Percentage growth of TSR since the end of 2008**




### Historic Group Chief Executive remuneration

The table below shows the historic levels of pay for the Group Chief Executive, his awards not subject to further performance measures and his awards subject to further performance measures, as a proportion of plan or policy maxima.

| | Performance year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Group Chief Executive | P A Sands | P A Sands | P A Sands | P A Sands | P A Sands | P A Sands | P A Sands & W T Winters[1] |
| Single figure of total remuneration $000 | 11,139 | 12,305 | 12,469 | 11,014 | 6,842 | 5,095 | 1,972 (PAS)<br>12,833 (WTW) |
| Annual incentive as a percentage of maximum opportunity | 64% | 70% | 70% | 63% | 50% | 0% | 0% (PAS)<br>0% (WTW) |
| Vesting of LTIP awards as a percentage of maximum | 81% | 90% | 90% | 77% | 33% | 10% | 0% (PAS)<br>N/A (WTW) |

1. Peter Sands stepped down from the Board on 10 June 2015. Bill Winters was employed by the Group from 1 May 2015 and was appointed Group Chief Executive with effect from 10 June 2015.

### The percentage change in remuneration of the Group Chief Executive and all employees

The table below shows the percentage change in remuneration between the 2014 and 2015 performance years for the Group Chief Executive and the wider employee population.

| Remuneration element | CEO[1,2] % change | All employees[3,4] % change |
|---|---|---|
| Salaries | 0% | 1.7% |
| Taxable benefits | 8% | 16.2% |
| Annual incentive | N/A | (22)% |

1. Peter Sands stepped down from the Board on 10 June 2015 and Bill Winters became Group Chief Executive with effect from 10 June 2015. To facilitate a year-on-year comparison, the CEO percentage change shown is the change between Peter's salary and benefits between 2014 and 2015 on an annualised basis
2. No annual incentive was paid to the Group Chief Executive in respect of 2014 and 2015 performance
3. For the 'all employees' group, the taxable benefits for UK employees have been used, as it was deemed the most appropriate comparison for the Group Chief Executive given the varied requirements in the provision of benefits across different jurisdictions
4. For the 'all employees' group, the salary and incentives data for the global employee population who are eligible to receive discretionary annual incentives has been used, as those employees have an element of incentive awards

## Shareholder voting and shareholder engagement

The table below shows the votes cast at the AGM in May 2015 on remuneration-related matters.

| | For | Against | Withheld |
|---|---|---|---|
| Advisory vote on the 2014 remuneration report | 447,504,383 (97.35%) | 12,178,078 (2.65%) | 13,118,407 |

Although the 2014 remuneration report was well supported, the Committee considered feedback it received from shareholders prior to and following the vote on the 2014 remuneration report. Some feedback related to comments on the design of the remuneration policy, rather than how the policy was operated. Although shareholders and investor bodies have a range of views, there were some common themes, and the table below summarises the feedback received and the action taken to address this feedback in the proposed directors' remuneration policy.

| Feedback received | Action taken |
|---|---|
| The proportion of variable remuneration subject to stretching performance measures should be increased | LTIP awards will comprise at least 120 per cent of fixed remuneration (i.e. at least 60 per cent of the variable remuneration opportunity) and will be subject to stretching, long-term performance measures |
| The variable remuneration structure is complex given the introduction of underpin shares | Variable remuneration has been restructured, with a simpler split between an annual incentive and an LTIP award |
| The underpin shares should have performance measures like the LTIP awards | Underpin shares will no longer be delivered and the vesting of LTIP awards will be subject to stretching long-term performance measures |
| The LTIP awards for eligible leavers should be prorated for time served | On termination, eligible leavers' LTIP awards granted from the AGM in May 2016 will vest pro rata for time served during the period over which performance measures are measured |

## How the remuneration policy will be implemented for executive directors in 2016

The table below summarises the remuneration policy for executive directors that is to be put to shareholders for approval at the AGM in May 2016 and how that policy will be implemented in 2016.

| Element | Implementation in 2016 |
|---|---|
| **Salary** | Executive director salaries will be unchanged in amount from 2015:<br>• Bill Winters: $1,757,335<br>• Mike Rees: $1,489,914<br>• Andy Halford: $1,298,900 |
| **Fixed pay allowances** | Executive director FPAs will be unchanged in amount from 2015:<br>• Bill Winters: $1,757,335<br>• Mike Rees: $1,000,000<br>• Andy Halford: $700,000 |
| **Benefits** | Will be provided in accordance with the remuneration policy |
| **Pension** | Unchanged in amount from 2015. 40 per cent of salary (except for Mike Rees whose pension will be fully accrued in February 2016) |
| **Annual incentive** | For awards in respect of 2016, the maximum annual incentive opportunity will be 40 per cent of fixed pay (defined as salary, FPA and pension). The annual incentive awarded in respect of 2016 will be determined based on a balanced scorecard, shown on page 126 |
| **LTIP** | For awards in respect of 2016, the maximum LTIP opportunity will be 160 per cent of fixed pay (defined as salary, FPA and pension). The LTIP awarded in respect of 2016 will be made in 2017 and will vest subject to performance measures determined by the Committee prior to grant |

## 2016 annual incentive scorecard

The measures in the scorecard have been determined to be aligned with the Group's strategy and in consultation with shareholders. The targets are set annually by the Committee and take into account the Group's annual financial plan and its priorities for the next few years within the context of the economic environment. The Committee considers such targets to be commercially sensitive and that it would be detrimental to the interests of the Group to disclose them before the end of the financial year. Targets will be disclosed in the 2016 directors' remuneration report alongside the actual level of performance achieved.

The Committee will review the scorecard annually and may vary the measures, weightings and targets each year.

| **Step 1: Gateway requirement to be met in order to be eligible for any annual incentive** | | |
|---|---|---|
| Appropriate level of individual values and conduct exhibited during the course of the year | | |
| **Step 2: Measurement of performance against financial and other strategic measures** | | |
| **Financial measures** | **Weighting** | **Target** |
| Total income[1] | 10% | • Target to be disclosed to shareholders retrospectively[5] |
| Operating profit[2] | 15% | • Target to be disclosed to shareholders retrospectively[5] |
| RoE[3] plus CET1[4] underpin of 12% | 25% | • Target to be disclosed to shareholders retrospectively[5] |
| **Other strategic measures** | **Weighting** | **Target[6]** |
| Secure the foundations | 20% | • Improve quality of loan book as evidenced by a decrease in the non-performing loan flow rate<br>• Progress in liquidating and exiting identified $25 billion non-strategic assets<br>• Successfully execute Group's financial crime risk and other conduct-related mitigation and remediation programmes |
| Get lean and focused | 15% | • Achieve cost-efficiency target<br>• Restructure in Corporate & Institutional Banking and overhaul Commercial Banking as evidenced by a reduction in the percentage of RWA generating below threshold returns<br>• Accelerate Retail Banking transformation |
| Invest and innovate | 15% | • Grow Private Banking and Wealth Management assets under management<br>• Up-tier Retail Banking by growing the number of priority clients<br>• Increase digital penetration as evidenced by increased adoption of Retail Banking and Corporate Banking clients |

1. Total income is based on underlying operating income, excluding any fair value changes relating to own credit, gains/losses on disposals and material one-off changes to valuation methodologies which align with market practice and which are not representative of underlying business performance
2. Operating profit is based on underlying operating profit which excludes fair value changes relating to own credit and material one-off gains/losses such as disposals, other acquisitions and corporate-related activity, goodwill impairment, material one-off changes to valuation methodologies to align with market practice and restructuring charges, which are not representative of underlying business performance. Underlying profit would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Remuneration Committee
3. Normalised RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax affected basis, for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. This includes material one-off changes to valuation methodologies to align with market practice and restructuring charges. Normalised RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Remuneration Committee
4. CET1 is based on regulatory definitions and modelling assumptions as at 1 January 2016. In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period
5. There will be detailed retrospective disclosure of financial target ranges and the outcomes against both financial and strategic measures
6. Aligned to internal scorecards measuring in-year progress on multi-year initiatives

## Executive directors' share interests including share awards

### Scheme interests awarded, exercised and lapsed during the year (audited)

The following table shows the changes in share interests.

| | Changes in interests during 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at 1 January | Awarded[1] | Dividends awarded | Rights issue adjustment[2] | Exercised[3] | Lapsed | As at 31 December[4] | Performance period end or first vest | Last vesting date |
| **W T Winters** | | | | | | | | | |
| Restricted shares (buy-out) | – | 299,647 | – | 15,175 | – | – | 314,822 | 22 Sep 2017 | 22 Sep 2017 |
| | – | 299,647 | – | 15,175 | – | – | 314,822 | 22 Sep 2018 | 22 Sep 2018 |
| | – | 299,737 | – | 15,179 | – | – | 314,916 | 22 Sep 2019 | 22 Sep 2019 |
| **A M G Rees** | | | | | | | | | |
| LTIP 2011-13 | 56,197 | – | – | 2,845 | – | – | 59,042 | 31 Dec 2013 | 06 May 2014 |
| LTIP 2012-14 | 192,745 | – | – | 976 | – | 173,471 | 20,250 | 31 Dec 2014 | 13 Mar 2015 |
| LTIP 2013-15 | 150,489 | – | – | 7,621 | – | – | 158,110 | 31 Dec 2015 | 11 Mar 2016 |
| LTIP 2014-16 | 193,895 | – | – | 9,819 | – | – | 203,714 | 31 Dec 2016 | 13 Mar 2017 |
| Deferred shares 2011 | 88,409 | – | 4,553 | 4,707 | – | – | 97,669 | 13 Mar 2015 | 13 Mar 2015 |
| Deferred shares 2012 | 66,583 | – | 3,511 | 3,546 | – | – | 73,640 | 11 Mar 2015 | 11 Mar 2015 |
| | 66,606 | – | 3,348 | 3,546 | – | – | 73,500 | 11 Mar 2016 | 11 Mar 2016 |
| Deferred shares 2013 | 63,009 | – | 3,244 | 3,355 | – | – | 69,608 | 13 Mar 2015 | 13 Mar 2015 |
| | 63,009 | – | 3,244 | 3,355 | – | – | 69,608 | 13 Mar 2016 | 13 Mar 2016 |
| | 63,010 | – | 3,248 | 3,356 | – | – | 69,634 | 13 Mar 2017 | 13 Mar 2017 |
| **A N Halford** | | | | | | | | | |
| LTIP 2014-16 | 128,545 | – | – | 6,509 | – | – | 135,054 | 31 Dec 2016 | 18 Jun 2017 |
| LTIP 2015-17 | – | 27,154 | – | 1,375 | – | – | 28,529 | 31 Dec 2017 | 19 Mar 2018 |
| Deferred shares 2014 | – | 12,310 | – | 622 | – | – | 12,932 | 19 Mar 2016 | 19 Mar 2018 |
| | – | 12,310 | – | 622 | – | – | 12,932 | 19 Mar 2017 | 19 Mar 2018 |
| | – | 12,310 | – | 626 | – | – | 12,936 | 19 Mar 2018 | 19 Mar 2018 |
| Underpin shares 2015-17 | – | 13,577 | – | 687 | – | – | 14,264 | 31 Dec 2017 | 19 Mar 2018 |
| | – | 13,577 | – | 687 | – | – | 14,264 | 31 Dec 2019 | 19 Mar 2020 |
| Sharesave | – | 1,535 | – | 77 | – | – | 1,612 | 01 Dec 2018 | – |
| **P A Sands** | | | | | | | | | |
| LTIP 2012-14 | 239,127 | – | – | – | 23,912 | 215,215 | 0 | 31 Dec 2014 | 13 Mar 2015 |
| LTIP 2013-15 | 186,329 | – | – | – | – | – | 186,329 | 31 Dec 2015 | 11 Mar 2016 |
| LTIP 2014-16 | 201,166 | – | – | – | – | – | 201,166 | 31 Dec 2016 | 13 Mar 2017 |
| Deferred shares 2011 | 30,943 | – | 1,593 | – | 32,536 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| Deferred shares 2012 | 23,304 | – | 1,200 | – | 24,504 | – | 0 | 11 Mar 2015 | 11 Mar 2015 |
| | 23,312 | – | 1,201 | – | – | – | 24,513 | 11 Mar 2016 | 11 Mar 2016 |
| Deferred shares 2013 | 24,234 | – | 1,248 | – | 25,482 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| | 24,234 | – | 1,248 | – | – | – | 25,482 | 13 Mar 2016 | 13 Mar 2016 |
| | 24,242 | – | 1,249 | – | – | – | 25,491 | 13 Mar 2017 | 13 Mar 2017 |
| Sharesave | 789 | – | – | – | – | – | 789 | 01 Dec 2015 | – |

## Scheme interests awarded, exercised and lapsed during the year (audited) continued

| | Changes in interests during 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at 1 January | Awarded[1] | Dividends awarded | Rights issue adjustment[2] | Exercised[3] | Lapsed | As at 31 December[4] | Performance period end or first vest | Last vesting date |
| **J S Bindra** | | | | | | | | | |
| LTIP 2012-14 | 119,563 | – | – | – | 11,956 | 107,607 | 0 | 31 Dec 2014 | 13 Mar 2015 |
| LTIP 2013-15 | 100,742 | – | – | – | – | – | 100,742 | 31 Dec 2015 | 11 Mar 2016 |
| LTIP 2014-16 | 109,551 | – | – | – | – | – | 109,551 | 31 Dec 2016 | 13 Mar 2017 |
| Deferred shares 2011 | 15,914 | – | 820 | – | 16,734 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| Deferred shares 2012 | 12,947 | – | 667 | – | 13,614 | – | 0 | 11 Mar 2015 | 11 Mar 2015 |
| | 12,950 | – | 667 | – | – | – | 13,617 | 11 Mar 2016 | 11 Mar 2016 |
| Deferred shares 2013 | 13,572 | – | 698 | – | 14,270 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| | 13,572 | – | 698 | – | – | – | 14,270 | 13 Mar 2016 | 13 Mar 2016 |
| | 13,574 | – | 701 | – | – | – | 14,275 | 13 Mar 2017 | 13 Mar 2017 |
| Sharesave | 1,407 | – | – | – | – | – | 1,407 | 01 Dec 2014 | – |
| Sharesave | 913 | – | – | – | – | 913 | 0 | 01 Dec 2017 | – |
| **V Shankar** | | | | | | | | | |
| LTIP 2012-14 | 92,764 | – | – | – | 9,276 | 83,488 | 0 | 31 Dec 2014 | 13 Mar 2015 |
| LTIP 2013-15 | 106,983 | – | – | – | – | – | 106,983 | 31 Dec 2015 | 11 Mar 2016 |
| LTIP 2014-16 | 123,608 | – | – | – | – | – | 123,608 | 31 Dec 2016 | 13 Mar 2017 |
| Deferred shares 2011 | 28,291 | – | 1,457 | – | 29,748 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| Deferred shares 2012 | 14,426 | – | 743 | – | 15,169 | – | 0 | 11 Mar 2015 | 11 Mar 2015 |
| | 14,431 | – | 743 | – | – | – | 15,174 | 11 Mar 2016 | 11 Mar 2016 |
| Deferred shares 2013 | 14,444 | – | 743 | – | 15,187 | – | 0 | 13 Mar 2015 | 13 Mar 2015 |
| | 14,444 | – | 743 | – | – | – | 15,187 | 13 Mar 2016 | 13 Mar 2016 |
| | 14,447 | – | 746 | – | – | – | 15,193 | 13 Mar 2017 | 13 Mar 2017 |

1. For awards granted in 2015 to Bill Winters on 22 September 2015 the share price at grant was £7.23 and the face value was $9.93 million. No performance measures apply. For awards granted in 2015 to Andy Halford on 19 March 2015, the share price at grant was £10.43 and the face value was $1.54 million. Performance measures apply to LTIP 2015-17 and underpin shares 2015-17 but no performance measures apply to the Deferred shares 2014. For the Sharesave award to Andy granted on 7 October 2015, the share price at grant was £7.32, the exercise price is £5.58 and the face value at grant was $16,809. No performance measures apply. The share price at grant was calculated as the higher of the five-day average closing price and the closing price on the day before the grant date (or invitation date in the case of Sharesave)
2. For awards granted prior to the announcement of the rights issue in November 2015, and which had not been exercised or lapsed as of 1 December 2015 in relation to Sharesave awards, and 14 December 2015 in relation to other awards, the number of shares under award has been increased by approximately 5 per cent. The adjustment follows the standard approach that companies apply to employee shares awards in the event of a rights issue
3. All 2015 exercises shown took place on 13 March 2015. The closing price was £9.09 on 13 March 2015, based on this share price, the gains realised on exercise were as follows: Peter Sands: LTIP 2012-14: $332,152; Deferred shares 2011: $451,944; Deferred shares 2012: $340,375; Deferred shares 2013: $353,960, Jaspal Bindra: LTIP 2012-14: $166,076; Deferred shares 2011: $232,445; Deferred shares 2012: $189,106; Deferred shares 2013: $198,219, V Shankar: LTIP 2012-14: $128,849; Deferred shares 2011: $413,217; Deferred shares 2012: $210,706; Deferred shares 2013: $210,956
4. All figures are as at 31 December 2015 or on the retirement of an executive director (i.e. 10 June 2015 for Peter Sands and 30 April 2015 for Jaspal Bindra and V Shankar). There were no changes to any executive director's scheme interests in ordinary shares between 31 December 2015 and 22 February 2016

## Shareholdings and share interests (audited)

Executive directors are required to maintain a shareholding as determined by the Committee. Executive directors must build up their shareholding over a reasonable timeframe from the date of appointment as an executive director (or, if later, from the date of any change to the terms of the shareholding requirement). Shares that count towards the requirement are beneficially owned shares including any vested share awards subject only to a holding period.

The shareholding requirement is currently expressed as a number of shares and is set as:

- 250,000 shares for the Group Chief Executive
- 200,000 shares for the Deputy Group Chief Executive
- 150,000 shares for the Group Chief Financial Officer

In addition to the shareholding requirement, executive directors hold a considerable number of shares as part of the FPA shares which are held and released over five years. Unreleased FPA shares are not counted for the purposes of the above shareholding requirement.

The following table summarises the executive directors' shareholdings and share interests[1].

| | Are the shareholding requirements met? | | | | Share awards | | |
|---|---|---|---|---|---|---|---|
| | Shares held beneficially[2,3] | Shareholding as a percentage of salary[4] | Actual shareholding requirement in number of shares | Alignment to requirement | Vested but unexercised share awards | Unvested share awards not subject to performance measures | Unvested share awards subject to performance measures |
| W T Winters[5] | 294,473 | 200 | 250,000 | On track | – | 944,560 | – |
| A M G Rees | 345,531 | 277 | 200,000 | Met | 320,209 | 212,742 | 361,824 |
| A N Halford[5] | 140,849 | 129 | 150,000 | On track | – | 40,412 | 192,111 |
| **Former directors** | | | | | | | |
| P A Sands[6] | 322,341 | N/A | N/A | N/A | – | 76,275 | 387,495 |
| J S Bindra[7] | 283,247 | N/A | N/A | N/A | – | 43,569 | 210,293 |
| V Shankar[7] | 236,127 | N/A | N/A | N/A | – | 45,554 | 230,591 |

1. All figures are as at 31 December 2015 or on the retirement of an executive director, unless stated otherwise. There were no changes to any executive directors' interests in ordinary shares between 31 December 2015 and 22 February 2016. No director had either (i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in the Company's ordinary shares
2. The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares
3. FPA shares are beneficially held by each executive director and do not immediately count for the purposes of meeting their shareholding requirement. The level of unreleased FPA shares are: Bill Winters: 59,035; Mike Rees: 62,650; and Andy Halford: 37,019
4. Shareholding as a percentage of salary is calculated using the average of the Company's high and low closing share price in 2015 (£7.81)
5. Bill Winters joined the Board on 10 June 2015 and Andy Halford on 1 July 2014 – they will meet their shareholding requirements within a reasonable period of time
6. Peter Sands stepped down from the Board on 10 June 2015. Figures shown are as at 10 June 2015
7. Jaspal Bindra and V Shankar stepped down from the Board on 30 April 2015. Figures shown are as at 30 April 2015. 153,000 of Jaspal Bindra's shares are subject to a charge dated 28 December 2011

### Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the *Investment Association's Principles of Remuneration* and the terms of our listing on The Stock Exchange of Hong Kong Limited.

The Group has two employee benefit trusts that are administered by an independent trustee and which hold ordinary shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

## Service contracts for executive directors

Copies of the executive directors' service contracts are available for inspection at the Group's registered office. These contracts have rolling 12-month notice periods and the dates of the executive directors' service contracts are shown below. Executive directors are permitted to hold non-executive directorship positions in other organisations (but no more than one position with a FTSE 100 company). Where such appointments are agreed with the Board, the executive directors may retain any fees payable for their services. The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report.

| | Date of employment contract[1] | Details of any non-executive directorship | Fees retained for any non-executive directorship (local currency) |
|---|---|---|---|
| W T Winters | 25 Feb 2015 | Novartis International AG<br>Pension Insurance Corporation | CHF 325,000<br>£65,327 |
| A M G Rees | 7 Jan 2010 | – | – |
| A N Halford | 10 Feb 2016 | Marks and Spencer Group plc | £85,000 |
| **Former directors** | | | |
| P A Sands | 31 Dec 2003 | MAS International Advisory Panel<br>The Department of Health | Fees given to charity<br>Fees waived |
| J S Bindra | 8 May 2013 | Reckitt Benckiser Group plc | £102,500 |
| V Shankar | 14 Apr 2010 | Majid Al Futtaim Holding LLC | $300,000 |

1. Date the latest employment contract was entered into, not date of taking up employment with the Group

## Remuneration arrangements for the Group Chairman and independent non-executive directors

### Single figure of remuneration of the Group Chairman and independent non-executive directors (audited)

Sir John Peace's total fee remained $1,757,335 and this continued to be paid partly in cash and partly in shares. He was also provided with a car and driver for business purposes, and private healthcare.

The iNEDs were paid in 12 equal monthly instalments during the year. UK-based iNEDs were able to use up to 100 per cent of their monthly post-tax base fees to acquire shares in the Group (Monthly Share Purchase Scheme).

The tables below show the fees and benefits received by the Group Chairman and iNEDs in 2015.

| | Fees $000 | | Benefits $000 | | Total $000 | | Shares beneficially held as at 31 December 2015[1,2] |
|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | |
| **Chairman** | | | | | | | |
| Sir John Peace | **1,757** | 1,894 | **32** | 6 | **1,789** | 1,900 | **246,681** |

| | Fees $000 | | Benefits $000 | | Total $000 | | Shares beneficially held as at 31 December 2015[1,3] |
|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | |
| **Current iNEDs** | | | | | | | |
| O P Bhatt | **199** | 214 | **53** | 44 | **252** | 258 | **2,000** |
| Dr K M Campbell | **199** | 169 | **10** | 10 | **209** | 179 | **–** |
| Dr L Cheung | **199** | 214 | **40** | 67 | **239** | 281 | **2,571** |
| G Huey Evans, OBE[4] | **139** | – | **–** | – | **139** | – | **2,571** |
| Dr B E Grote | **244** | 132 | **–** | – | **244** | 132 | **32,142** |
| C M Hodgson | **382** | 292 | **4** | – | **386** | 292 | **2,571** |
| N Kheraj | **415** | 324 | **8** | 1 | **423** | 325 | **2,571** |
| S J Lowth[5] | **244** | 214 | **3** | 3 | **247** | 217 | **14,893** |
| Dr Han Seung-soo, KBE | **199** | 214 | **61** | 326 | **260** | 540 | **3,474** |
| Dr L Thunell[6] | **374** | 356 | **7** | 3 | **381** | 359 | **8,708** |
| J Whitbread[7] | **155** | – | **–** | – | **155** | – | **2,571** |
| **Former iNEDs** | | | | | | | |
| R Markland[8] | **315** | 453 | **8** | 5 | **323** | 458 | **5,610** |
| P D Skinner, CBE[8] | **359** | 387 | **8** | 6 | **367** | 393 | **22,014** |
| O H J Stocken, CBE[9] | **33** | 214 | **–** | – | **33** | 214 | **17,915** |

1. The iNEDs are required to hold shares with a nominal value of $1,000. All the directors, other than Dr Kurt Campbell, have met this requirement. Shareholders approved a resolution to disapply the shareholding qualification in relation to Dr Kurt Campbell at the Company's AGM in May 2014. This was in connection with the terms of the then proposed appointment of Dr Kurt Campbell's wife to the Board of Governors of the United States Federal Reserve System
2. No director had either (i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in the Company's ordinary shares
3. The beneficial interests of directors and their related parties in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares
4. Gay Huey Evans joined the Board on 1 April 2015
5. The number of shares which Simon Lowth holds beneficially has increased by 110 shares in the period from 31 December 2015 to 22 February 2016 due to his participation in the Monthly Share Purchase Scheme. There were no changes to any of the other iNEDs' interests in ordinary shares between 31 December 2015 and 22 February 2016
6. Dr Lars Thunell resigned from the Board with effect from 31 January 2016
7. Jasmine Whitbread joined the Board on 1 April 2015
8. Ruth Markland and Paul Skinner resigned from the Board with effect from 31 December 2015
9. Oliver Stocken resigned from the Board with effect from 28 February 2015

### Additional information to explain the single total figure table for the Group Chairman and independent non-executive directors

Benefits primarily consist of travel and subsistence costs in relation to Board and Committee meetings and other Board-related events which are taxable in the UK. Spouses may also accompany the directors to meetings. These costs (and any associated tax costs) are paid by the Group.

The 2015 benefits figures shown are in respect of the 2014/15 tax year. This provides consistency with the reporting of similar benefits in 2014 and with those received by executive directors.

### Exercise of share awards by the Group Chairman (audited)

From his appointment in 2009 until the end of 2013, part of Sir John's total fee was delivered in an allocation of restricted shares. During 2015, Sir John exercised a number of vested awards. On exercise, shares were sold to cover the associated tax liabilities, with the balance of the shares retained.

| Date of grant | Number of shares under award | Rights issue adjustment | Number of shares exercised | Date of exercise[1] | Number of shares under award – unvested |
|---|---|---|---|---|---|
| 28 Sep 2009 | 43,105 | – | 43,105 | 2 Apr 2015 | – |
| 21 Sep 2010 | 21,552 | – | 21,552 | 2 Apr 2015 | – |
| 22 Jun 2011 | 14,863 | – | 14,863 | 2 Apr 2015 | – |
| 20 Sep 2011 | 18,491 | – | 18,491 | 2 Apr 2015 | – |
| 13 Mar 2012 | 15,974 | – | 15,974 | 2 Apr 2015 | – |
| 21 Dec 2012 | 7,891 | – | 7,891 | 2 Apr 2015 | – |
| 21 Dec 2012 | 7,891 | 399 | 8,290 | 21 Dec 2015 | – |
| 11 Mar 2013 | 13,888 | 351 | 6,944 | 2 Apr 2015 | 7,295 |
| 17 Dec 2013 | 19,142 | 969 | 10,055 | 21 Dec 2015 | 10,056 |

1. The closing share price on the respective dates of exercise and total gains were as follows: £10.76 and $2,118,128 (2 April 2015) and £5.49 and $153,903 (21 December 2015)

### Fees (audited)

The iNEDs' fees were not reviewed during 2015. The fees were last reviewed in 2013 and were set based on the duties, time commitment and contribution expected and alignment to fees paid to iNEDs in banks and other companies of a similar scale and complexity.

The following fees were paid to the iNEDs in 2015:

| | $000 | |
|---|---|---|
| | **As at 1 January 2015[1]** | As at 1 January 2014 |
| Board member | **153** | 165 |
| **Additional responsibilities** | | |
| Senior Independent Director | **61** | 66 |
| Chair<br>– Audit Committee<br>– Board Risk Committee | **107** | 115 |
| Chair<br>– Board Financial Crime Risk Committee<br>– Brand, Values and Conduct Committee<br>– Remuneration Committee | **92** | 99 |
| Membership<br>– Audit Committee<br>– Board Financial Crime Risk Committee<br>– Board Risk Committee<br>– Brand, Values and Conduct Committee<br>– Remuneration Committee | **46** | 49 |
| Membership of Governance and Nomination Committee | **23** | 25 |

1. Amounts are unchanged in British pounds from 2014 to 2015 but have changed in US dollar terms due to exchange rate movements

## How the remuneration policy will be implemented for independent non-executive directors in 2016

There are no proposed changes to how the policy will be implemented in 2016.

## Independent non-executive directors' letters of appointment

The iNEDs do not have service contracts and copies of their letters of appointment are available for inspection at the Group's registered office. Details of the iNEDs' appointments are set out on page 143.

## The Remuneration Committee

### Remuneration Committee members, attendance and attendees

The table below sets out the attendance at the Committee's meetings during the year.

| | Scheduled meetings | Ad hoc meetings |
|---|---|---|
| C M Hodgson (Chair) | 5/5 | 3/3 |
| Dr L Cheung | 5/5 | 3/3 |
| J Whitbread (appointed on 16 June 2015) | 3/3 | N/A |
| Dr B E Grote (appointed on 16 June 2015) | 3/3 | N/A |
| N Kheraj (appointed on 1 November 2015) | 1/1 | N/A |
| **Directors who stepped down during 2015** | | |
| R Markland | 5/5 | 3/3 |
| P D Skinner, CBE | 5/5 | 3/3 |

**Other attendees at Committee meetings include:** Group Chairman; Group Chief Executive; Director, Compliance and HR; Global Head, Performance, Reward and Conduct; Group Company Secretary; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel.

The Committee recognises and manages any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals and no director is involved in deciding his or her own remuneration.

The Committee was assisted in its considerations by PricewaterhouseCoopers LLP (PwC), who was appointed by the Committee as its remuneration advisor in November 2013 following a review of potential advisors. It is the Committee's practice to undertake a detailed review of potential advisors every three to four years. PwC's appointment was initially extended by the Committee in September 2014 and then most recently in January 2016 until July 2017 after a review of the quality of advice received.

PwC is a signatory to the voluntary Code of Conduct in relation to remuneration consulting in the UK. PwC also provides professional services in the ordinary course of business including assurance, advisory and tax advice to the Group, and the Committee is satisfied that the advice the Committee receives is objective and independent. In light of PwC's role as advisor to the Committee on remuneration matters, the Committee considered this position and determined that there was no conflict or potential conflict arising. The fee paid to PwC was $344,002, which was charged on an agreed per diem fee basis. This fee covers advice to the Committee relating to executive directors' remuneration.

Management's advice to the Committee was also supported by:

- Advice on the design and operation of the Group's share plans and issues relating to executive directors' contracts and iNEDs' letters of appointment and remuneration policy advice from Clifford Chance LLP
- The provision of market data from Towers Watson

### Committee role and focus

The Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all remuneration decisions.

In particular, the Committee:

- Determines and agrees with the Board the framework and broad policy for the remuneration of the Group Chairman, Group Chief Executive, the executive directors and other designated senior executives
- Approves any proposal to award a high remuneration package to new recruits
- Oversees the remuneration of material risk takers
- Ensures that the remuneration policy is appropriate and consistent with effective risk management
- Approves the Group variable remuneration each year

### The Committee's key activities during 2015

| Date | Fixed and variable remuneration | Governance risk and other matters |
|---|---|---|
| February/March | • Consider and approve aggregate Group 2014 variable remuneration<br>• Review and approve variable remuneration awards for executive directors, other senior management and material risk-takers<br>• Approve 2015 fixed remuneration for executive directors and other senior management<br>• Discuss future structure of executive directors' remuneration<br>• Review a) achievement of measures for performance share awards vesting in March and b) appropriateness of the measures and targets for grants in 2015 | • Update on risk and control matters and performance adjustment<br>• Review and finalise the 2014 directors' remuneration report<br>• Approve termination arrangements for retiring executive directors<br>• Approve remuneration arrangements for new executive director |
| April | • Review 2015 targets under the variable remuneration scorecard in light of full year 2014 results and shareholder reaction | |
| June | • Consider shareholder feedback and AGM outcomes and any impact on future structure of executive directors' remuneration<br>• Discuss Group's approach to all employee incentives | • Consider feedback from regulators in respect of 2014 remuneration cycle<br>• Discuss regulatory remuneration requirements |
| September | • Consider future structure of executive directors' remuneration<br>• Review remuneration of senior management<br>• Review total remuneration control framework | • Update on risk and control matters<br>• Discuss regulatory remuneration requirements<br>• Approve submission of data to the PRA and Financial Conduct Authority (FCA)<br>• Approve revisions to Group's policies, including claw-back |
| December | • Consider approach to the Group-wide 2015 performance, pay and potential review<br>• Consider Group 2015 variable remuneration amount and structures for delivery<br>• Review approach to risk adjustment for the Group variable remuneration and individual awards<br>• Review fixed and variable remuneration proposals for executive directors and other senior management | • Update on risk and control matters<br>• Approve the Group's Remuneration Policy Statement submission to the PRA<br>• Assess Remuneration Committee effectiveness |

At each scheduled meeting, the Committee also discussed the emerging regulatory and shareholder trends and reviewed analytics relating to offers, fixed and variable remuneration and performance measures. The Committee also dealt with certain less material matters on an ad hoc basis through email circulation.

### Summary of the themes identified in the 2015 Committee effectiveness review and actions taken/to be taken

At the end of most meetings, Committee members provided real-time feedback to enhance the Committee's effectiveness. In addition, as part of the effectiveness review for the entire Board, a formal evaluation of the Committee was undertaken. This involved each Committee member providing their views on the Committee's effectiveness. A summary of the themes and actions is set out below:

- Continue to hold individual briefing sessions with each Committee member ahead of Committee meetings to assist members in focusing on the main issues for discussion
- The Committee suggested there is a need to continue to strike the right balance between providing the Committee with a summary of the main issues for consideration and the details to support such Committee discussions. Consideration will therefore continue to be given to the nature and the evolution of the information to be provided to the Committee. Short papers with separate reference materials are available electronically

### Priorities for the Committee in 2016

Specific priorities for the Committee in 2016, in addition to its usual scheduled activities, will be:

- Continue to monitor regulatory developments including the UK regulatory response to the final EBA remuneration guidelines. As appropriate, review the executive directors' remuneration policy and, in addition, any arrangements for other material risk takers (MRTs)
- Monitor market trends to ensure the Group's remuneration remains competitive, balanced with the necessity of robustly managing overall costs
- Review the alignment of Group incentives and the delivery of the new strategy

# Additional remuneration disclosures

## Remuneration approach for all employees

Employees typically receive salary, pension and other benefits and are eligible to be considered for variable remuneration (determined based on both business and individual performance).

Material risk takers (MRTs) are subject to the 2:1 maximum ratio of variable to fixed remuneration.

Further information on the usual remuneration approach for all employees is provided below. There may be some country variations based on statutory requirements and/or market practice.

| Element | Operation |
|---|---|
| **Salary** | • Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of the annual performance assessment and affordability<br>• Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness |
| **Pension and benefits** | • Benefits are provided, with the details depending on local market practice. Employees have access to country-specific, company-funded benefits such as pension schemes, private medical insurance, permanent health insurance, life insurance and cash allowances. The cost of providing the benefits is defined and controlled<br>• Employees who are relocated or spend a substantial portion of their time in more than one jurisdiction for business purposes may be provided with mobility benefits. If employees incur tax charges when travelling overseas in performance of their duties, these costs may be met by the Group |
| **Variable remuneration** | • Variable remuneration rewards and incentivises the achievement of business and individual objectives as well as adherence to the Group's values<br>• The proportion of variable to fixed remuneration paid to employees is carefully monitored<br>• For material risk-takers the deferral rate is a minimum of 40 per cent (for incentives up to £500,000) or 60 per cent (for incentives of £500,000 or more) – see next section for more information<br>• For non-MRT employees, variable remuneration over a defined threshold is subject to a graduated level of deferral<br>• Deferred incentives are usually delivered in a combination of cash and shares<br>• For 2015, for the Group's leadership team, some or all of any variable remuneration for 2015 will be delivered in the form of an award under the management long-term incentive plan (MLTIP). MLTIP awards will be delivered entirely in shares with vesting over three to five years, subject to the satisfaction of performance measures<br>• Incentives are subject to the Group's claw-back policy, which enables the Group, in specified circumstances, to apply malus and claw-back at its discretion |
| **Sharesave** | • Sharesave is an all employee plan where participants are able to open a savings contract to fund the exercise of an option over shares<br>• The option price is set at a discount of up to 20 per cent of the share price at the date of invitation (or such other discount as may be determined by the Committee)<br>• An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues) |

### Fixed pay allowances

In 2015, a number of employees received fixed pay allowances (FPAs). These allowances allow the Group to provide a market-competitive level of fixed pay reflecting the skills and experience of the individual while complying with the variable remuneration requirements introduced by regulators. The Committee reviewed their use in light of revised regulatory guidance in 2015 and from 1 January 2016 FPAs have been eliminated other than for executive directors. In total, these amounted to $28 million in 2015. For those employees with allowances withdrawn, fixed remuneration has been reviewed.

### Approach to risk adjustment at an individual level

At an individual level, risk adjustment can potentially be applied through the following ex-post adjustments:

- Proportion of variable remuneration delivered in the form of deferred awards: in 2015, the Group considers the balance of variable remuneration which was deferred and not deferred. As well as ensuring senior employees take a longer-term view, ex-post adjustments are effective because appropriate levels of deferral apply
- Performance adjustment: potential diminution in the value of any deferred variable remuneration award through non-vesting due to performance measures and share price movement until vesting
- Operation of malus and/or claw-back is summarised below:

| | Event | Application |
|---|---|---|
| **Individual level** | • Deemed to have (i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or (ii) exhibited inappropriate values and behaviours or applied a lack of appropriate supervision | • Malus and claw-back may be applied to whole or part of an award at the Committee's discretion |
| **Business unit and/or Group level** | • Material restatement of the Group's financial statements<br>• Significant failure in risk management<br>• Discovery of endemic problems in financial reporting<br>• As a result of financial losses, a material breach of regulatory guidelines<br>• The exercise of regulatory or government action to recapitalise the Group following material financial losses | • Malus and claw-back may be applied to whole or part of an award at the Committee's discretion |

### Income statement charge for Group variable remuneration

| | **2015 $million** | 2014 $million |
|---|---|---|
| Total variable remuneration | **992** | 1,098 |
| Less: deferred variable remuneration that will be charged in future years | **(168)** | (139) |
| Plus: current year charge for deferred variable remuneration from prior years | **111** | 158 |
| Income statement charge for variable remuneration | **935** | 1,117 |

| | Actual | | Expected | |
|---|---|---|---|---|
| **Year in which income statement is expected to reflect deferred variable remuneration** | 2014 $million | **2015 $million** | 2016 $million | 2017 and beyond $million |
| Variable remuneration deferred from 2013 and earlier | 158 | **50** | 31 | 29 |
| Variable remuneration deferred from 2014 | 62 | **61** | 42 | 8 |
| Variable remuneration deferred from 2015 | 0 | **32** | 64 | 103 |
| Total | 220 | **143** | 137 | 140 |

### The exchange rates used in this report

Unless an alternative exchange rate is detailed in the notes to the relevant table, the exchange rates used to convert all disclosures to US dollars are set out in the table below.

| | **2015** | 2014 |
|---|---|---|
| AED | **3.6730** | 3.6730 |
| EUR | **0.9017** | 0.7535 |
| GBP | **0.6544** | 0.6071 |
| HKD | **7.7526** | 7.7547 |

## Pillar 3 disclosures on material risk-takers' remuneration and disclosures on the highest-paid employees

The table below summarises the groups of employees who have been identified in accordance with the regulatory requirements as material risk-takers for remuneration purposes. Individuals have been identified as material risk-takers in alignment with the qualitative and quantitative criteria set out in the EBA's Regulatory Technical Standard EU 604/2014 that came into force in June 2014.

| Quantitative criteria | Qualitative criteria |
|---|---|
| The quantitative criteria captures employees who:<br>• Have been awarded total remuneration of €500,000 or more in the previous financial year<br>• Are within the 0.3 per cent of the number of staff on a global basis who have been awarded the highest total remuneration in the preceding financial year<br>• In the preceding financial year were awarded total remuneration that was equal to or greater than the lowest total remuneration awarded that year to certain specified groups of employees<br>Certain employees can be excluded from the list of material risk-takers if they have no material impact on the Group's risk profile | The qualitative criteria broadly captures the following employees:<br>• Group directors (both executive and non-executive)[1]<br>• Employees who perform a significant influence function, and members of the Group's senior executive team and their immediate direct reports who have significant business or function responsibilities with risk and/or profit and loss accountability[1]<br>• Senior employees within the audit, compliance, legal and risk functions (both at a Group and business level)<br>• Senior employees within material business units<br>• Employees who sit on certain committees<br>• Employees who are able to initiate or approve credit risk exposures above a certain threshold and sign off on trading book transactions at or above a specific value at risk limit |

1. These two categories are referred to in the subsequent disclosures as 'senior management'

Remuneration for material risk-takers was delivered in 2015 through a combination of salary, benefits, variable remuneration and, for a small number of employees, an FPA.

Variable remuneration for material risk-takers is structured in line with the PRA and FCA's remuneration rules. For the 2015 performance year, the following will apply to variable remuneration awarded to material risk-takers in accordance with the regulations:

- At least 40 per cent of a material risk-taker's variable remuneration will be deferred over a period of three years
- Non-deferred variable remuneration will be delivered 50 per cent in up-front shares and 50 per cent in cash
- At least 50 per cent of deferred variable remuneration will be delivered entirely in shares
- For some material risk-takers, part of their 2015 variable remuneration may be in share awards which vest after three years, subject to the satisfaction of performance measures
- Variable remuneration awards are subject to the Group's claw-back policy
- Shares delivered to material risk-takers are subject to the Group's holding requirements

The following tables show the remuneration awards made by the Group to material risk-takers for 2015.

### Material risk-takers' aggregate 2015 remuneration by business

| | Client segments[1] $000 | Financial markets $000 | Other businesses[2] $000 | Corporate functions $000 | Independent functions $000 | Management[3] $000 |
|---|---|---|---|---|---|---|
| **2015** | **73,265** | **172,620** | **96,980** | **48,023** | **91,802** | **65,291** |

1. Client segments include employees supporting clients in Corporate & Institutional Banking, Commercial Banking, Private Banking and Retail Banking
2. Other businesses include employees covering products such as Corporate Finance, Transaction Banking and Wealth Management
3. Management includes all Group executive directors and iNEDs

## Material risk takers' 2015 remuneration by fixed/variable remuneration

| | Senior management $000 | Other material risk-takers $000 |
|---|---|---|
| **Fixed remuneration[1,2]** | **96,147** | **236,837** |
| **Variable remuneration[2,3]** | **52,382** | **162,615** |
| Upfront cash | 2,278 | 45,492 |
| Upfront shares | 1,917 | 32,820 |
| Deferred cash | 1,297 | 17,686 |
| Deferred shares including any long-term incentives | 46,890 | 66,617 |
| **Number of material risk takers (#)** | **89** | **512** |

1. Fixed remuneration includes salary, cash allowance and FPA and, in the case of iNEDs, any fees
2. For some material risk-takers, part of their 2015 variable remuneration may be delivered in share awards, vesting subject to performance measures. These awards are shown on an expected value basis
3. The ratio between fixed and variable remuneration for all material risk-takers in 2015 was 1:0.6

## Material risk-takers' deferred remuneration in 2015

| Analysis of deferred remuneration[1,2] | Senior management $000 | Other material risk-takers $000 |
|---|---|---|
| Start of the year (1 January) | 285,750 | 370,230 |
| Impact of changes to material risk-taker populations including leavers during 2014 and joiners in 2015 | (79,040) | (132,356) |
| Start of the year (1 January) (after adjustments) | **206,710** | **237,874** |
| Awarded during the year | 51,055 | 86,951 |
| Vested during the year | (49,469) | (88,245) |
| Non-vested due to performance adjustments | (38,462) | (22,793) |
| Close of the year (31 December) | **169,834** | **213,787** |

1. Value of deferred remuneration awarded during the year is based on the share price at grant
2. Value of deferred remuneration is based on awards which have lapsed during the year as a result of (i) performance measures not being satisfied or (ii) application of malus and/or claw-back

## Material risk-takers' sign-on and severance payments in 2015

| | Senior management $000 | Other material risk-takers $000 |
|---|---|---|
| Sign-on payments (0 employees) | – | – |
| Severance payments (8 employees; highest payment of $1.1 million) | **287** | **2,563** |

## Remuneration at or above €1 million

The table below is prepared in euros in accordance with Article 450 of the Capital Requirements Regulation.

| Remuneration band | Number of employees |
|---|---|
| 1,000,001 – 1,500,000 | 96 |
| 1,500,001 – 2,000,000 | 36 |
| 2,000,001 – 2,500,000 | 14 |
| 2,500,001 – 3,000,000 | 8 |
| 3,000,001 – 3,500,000 | 2 |
| 4,000,001 – 4,500,000 | 4 |
| 4,500,001 – 5,000,000 | 1 |
| 7,000,001 – 8,000,000 | 1 |
| **Total** | 162 |

## Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of the Hong Kong Stock Exchange, the following table sets out, on an aggregate basis, the annual remuneration of: a) the five highest-paid employees; and b) senior management for the year ended 31 December 2015.

| Components of remuneration | Five highest paid[1] $000 | Senior management[2] $000 |
|---|---|---|
| Salary, fixed pay allowances and benefits in kind | 9,366 | 30,369 |
| Pension contributions | 1,006 | 7,007 |
| Variable remuneration awards paid or receivable[3] | 30,611 | 38,762 |
| Payments made on appointment | 9,933 | 10,397 |
| Remuneration for loss of office (contractual or other) | – | 582 |
| Other | – | 287 |
| **Total** | **50,916** | **87,404** |
| **Total HK dollar equivalent** | **394,731** | **677,609** |

1. For 2015, the five highest-paid individuals include two executive directors, Bill Winters and Andy Halford
2. Senior management comprises the annual remuneration details of 19 executive directors or other senior managers who were members of the executive management team at any point during 2015
3. Variable remuneration paid or receivable excludes any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. It includes the deferred element of any variable remuneration and long-term incentive awards (on a face value basis). Any buyout award made on joining is included in payments made on appointment

The table below shows the emoluments of: a) the five highest-paid employees; and b) senior management for the year ended 31 December 2015.

| Remuneration band HKD000 | $000 equivalent | Number of employees: Five highest paid | Number of employees: Senior management |
|---|---|---|---|
| 10,000 – 10,500 | 1,290 – 1,354 | – | 1 |
| 13,000 – 13,500 | 1,677 – 1,741 | – | 1 |
| 16,500 – 17,000 | 2,128 – 2,193 | – | 1 |
| 17,000 – 17,500 | 2,193 – 2,257 | – | 1 |
| 21,000 – 21,500 | 2,709 – 2,773 | – | 1 |
| 22,000 – 22,500 | 2,838 – 2,902 | – | 1 |
| 22,500 – 23,000 | 2,902 – 2,967 | – | 1 |
| 24,000 – 24,500 | 3,096 – 3,160 | – | 1 |
| 25,500 – 26,000 | 3,289 – 3,354 | – | 1 |
| 28,000 – 28,500 | 3,612 – 3,676 | – | 1 |
| 29,500 – 30,000 | 3,805 – 3,870 | – | 1 |
| 31,000 – 31,500 | 3,999 – 4,063 | – | 1 |
| 34,500 – 35,000 | 4,450 – 4,515 | – | 1 |
| 35,500 – 36,000 | 4,579 – 4,644 | – | 1 |
| 36,000 – 36,500 | 4,644 – 4,708 | – | 1 |
| 38,000 – 38,500 | 4,902 – 4,966 | – | 1 |
| 44,500 – 45,000 | 5,740 – 5,805 | – | 1 |
| 51,000 – 51,500 | 6,578 – 6,643 | 1 | – |
| 54,000 – 54,500 | 6,965 – 7,029 | 1 | – |
| 59,500 – 60,000 | 7,675 – 7,739 | 1 | 1 |
| 64,500 – 65,000 | 8,320 – 8,384 | 1 | – |
| 164,500 – 165,000 | 21,219 – 21,283 | 1 | 1 |
| **Total** | | **5** | **19** |

**Christine Hodgson**
*Chair of the Remuneration Committee*
23 February 2016

# Other disclosures

## Directors' report

The Directors' report for the year ended 31 December 2015 comprises pages 62 to 150 of this report (together with the sections of the Annual Report and Accounts incorporated by reference). Both the Strategic report and the Directors' report have been drawn up and presented in accordance with reliance upon English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Other information to be disclosed in the Directors' report is given in this section. In addition to the requirements set out in the Disclosure and Transparency Rules relating to the Annual Report and Accounts, information required by Listing Rule 9.8.4 to be included in the Annual Report and Accounts where applicable, is set out in the table below and cross-referenced.

## Information to be included in the Annual Report and Accounts (LR 9.8.4)

| Relevant Listing Rule | Page |
|---|---|
| LR 9.8.4 (1) (2) (5-14) (A) (B) | N/A |
| LR 9.8.4 (4) | 127 to 130 |

## Principal activities

Standard Chartered is a leading international banking Group, with a 150-year history in some of the world's most dynamic markets. We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. The Group's roots in trade finance and commercial banking have been at the core of its success throughout its history, but the Group is now more broadly based across Retail Banking in its footprint markets. The Group comprises a network of more than 1,100 branches and outlets in 67 markets.

**Further details on our business can be found within the Strategic report on pages 3 to 59**

**Further details on the branches can be found on our website sc.com**

## Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the Annual Report and Accounts and the process by which the Group believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report and Accounts.

**The Strategic report can be found on pages 3 to 59**

## Code for Financial Reporting Disclosure

The Group's 2015 financial statements have been prepared in accordance with the principles of the BBA Code for Financial Reporting Disclosure.

## Disclosure of information to auditor

As far as the directors are aware, there is no relevant audit information of which the Group statutory auditor, KPMG LLP (KPMG), is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditors are aware of such information.

## Going concern

Having made appropriate enquiries, the Board is satisfied that the Company and the Group as a whole have adequate resources to continue operational businesses for a period of at least 12 months from the date of this report and therefore continue to adopt the going concern basis in preparing the financial statements.

## Viability

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the period up to 31 December 2018. The Board conducted this review for a period of three years which was selected for the following reasons:

- It is within the Group's strategic planning horizon
- It is also within the period covered by the Prudential Regulation Authority's (PRA) annual Internal Capital Adequacy Assessment Process (ICAAP) which forecasts key capital requirements
- It is within the period covered by the Group-wide internal and regulatory stress tests

The corporate plan is evaluated and approved each year by the Board and considers the Group's future projections of profitability, cash flows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period. These metrics are subject to sensitivity analyses which involve flexing a number of the main assumptions underlying the forecast.

The Board's assessment has been made with reference to:

- The Group's strategy (Our strategy and business model – page 13)
- The Group's current position and prospects (Operating and financial review – pages 35 to 59)
- The Board's risk tolerance
- The Group's principal risks and uncertainties, how these are managed and the potential impact of these on the Group (Risk management – pages 24 to 28)

In addition, the Risk and capital review on pages 154 to 225 details the Group's risk management framework, risk policies and procedures for each key risk type and quantitative and qualitative analysis of these risk types.

## Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the HK Listing Rules), based on the information publicly available to the Company and within the knowledge of the directors.

## Research and development

During the year, the Group invested $594 million (2014: $504 million) in research and development, primarily relating to the planning, analysis, design, development, testing, integration, deployment and initial support of technology systems.

## Political donations

No political donations were made in the year ended 31 December 2015.

## Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 62 to 65. Details of the directors' beneficial and non-beneficial interests in the ordinary shares of the Company are shown in the Directors' remuneration report on pages 129 and 131. The Group operates a number of share-based arrangements for its directors and employees.

**Details of these arrangements are included in the Directors' remuneration report and in note 35 to the financial statements on page 306**

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the HK Listing Rules and still considers all of the non-executive directors to be independent. Details concerning the provisions for providing compensation to directors for loss of office or employment (including in the context of a takeover bid) can be found on page 123 of the Directors' remuneration report.

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings.

In accordance with the Companies Act 2006, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. On behalf of the Board, the Governance and Nomination Committee reviews actual or potential conflicts of interest annually to consider if they continue to be appropriate, and also to revisit the terms upon which they were provided. The Board is satisfied that our processes in this respect continue to operate effectively.

Subject to company law, the Articles of Association and the authority granted to directors in general meeting, the directors may exercise all the powers of the Company and may delegate authorities to committees. The Articles of Association contain provisions relating to the appointment, re-election and removal of directors. In line with the UK Corporate Governance Code 2014 all directors, with the exception of Mike Rees, Group Deputy Chief Executive, who will step down from the Board on 30 April 2016, will stand for annual (re)election at the 2016 AGM.

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2015, and remain in force at the date of this report.

## Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

## Future developments in the business of the Group

An indication of likely future developments in the business of the Group is provided in the Strategic report on pages 3 to 59.

## Results and dividends

| |
|---|
| 2015: paid interim dividend of 14.40[1] cents per share (2014: 28.80 cents per share) |
| 2015: nil proposed final dividend (2014: 57.20 cents per share) |
| Total dividend, 14.40[1] cents (2014: 86.00 cents) |

On 3 November 2015, it was announced that the Board had recommended that no final dividend will be paid for the financial year ending 31 December 2015.

## Share capital

The issued ordinary share capital of the Company was increased by 805,467,656 during the year. 728,432,451 ordinary shares were issued under the Company's rights issue announced on 3 November 2015. 5,694,811 ordinary shares were issued under the Company's employee share plans at prices between nil and 1,140 pence. 71,340,394 ordinary shares were issued under the Company's share dividend scheme. The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every $2 nominal value of share capital held. The issued nominal value of the ordinary shares represents 85 per cent of the total issued nominal value of all share capital. The remaining 15 per cent comprises preference shares, which have preferential rights to income and capital but which, in general, do not confer a right to attend and vote at our general meetings.

**Further details of the Group's share capital can be found in note 33 to the financial statements on page 304**

1. Not adjusted for the rights issue announced on 3 November 2015 – see note 13 on page 263

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. There are no specific restrictions on voting rights and the directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Articles of Association

The Articles of Association may be amended by special resolution of the shareholders; no changes to the Company's Articles of Association were made during the year.

## Authority to purchase own shares

At the AGM held on 6 May 2015, our shareholders renewed the Company's authority to make market purchases of up to 247,399,168 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 16 March 2015, and up to all of the issued preference share capital. These authorities were not used during the year and remained in force at 31 December 2015.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was modified on 30 April 2009, 25 July 2011 and 9 October 2013, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of the waiver, in connection with any shares it may hold in treasury. Shareholders will be asked to renew these authorities at the forthcoming AGM, and will receive details within the Notice of AGM.

No treasury shares were held during the year.

**Further details can be found in note 33 to the financial statements on page 304**

## Authority to issue shares

The Company is granted authority to issue shares by the shareholders at its AGM. The size of the authorities granted depends on the purposes for which shares are to be issued and is within applicable legal and regulatory requirements.

## Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company are able to require the directors to hold a general meeting. A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting. Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid-up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later, the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.

**Shareholders are able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website sc.com or by emailing the Group Corporate Secretariat at group-corporate.secretariat@sc.com**

## Major interests in shares and voting rights

As at 31 December 2015, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

As at 19 February 2016, the Company has been notified, pursuant to the requirement of Rule 5 of the Financial Conduct Authority Disclosure and Transparency Rules, by the following companies of their interest in the total voting rights of the Company:

| Shareholder | Number of ordinary shares | Percentage of voting rights direct | Percentage of voting rights indirect |
|---|---|---|---|
| Temasek Holdings (Private) Limited[1] | 517,051,383 | – | 15.77 |
| Aberdeen Asset Management PLC's fund management operating subsidiaries | 214,883,944 | – | 6.56 |
| Dodge & Cox | 181,694,162 | – | 5.54 |

1. Temasek Holdings (Private) Limited's interests are held indirectly through Dover Investments Pte. Ltd

## Related-party transactions

Details of transactions with directors and officers and other related parties are set out in note 43 to the financial statements on page 312.

## Connected/continuing connected transactions

By virtue of its shareholding of more than 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited (the HK Listing Rules) respectively (together known as 'the Rules').

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions that the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

The HKSE adopted an exemption (the Passive Investor Exemption) on 3 June 2010 for 'transactions with associates of a passive investor' (Rules 14A.99 and 14A.100). The Company considers that Temasek meets the criteria for a passive investor under Rules 14A.99 and 14A.100. Therefore, any connected transactions or continuing connected transactions of a revenue nature in the ordinary and usual course of business and on normal commercial terms with an associate of Temasek are exempt from the announcement, reporting, annual review and independent shareholders' approval requirements of the HK Listing Rules. The Passive Investor Exemption is not applicable in respect of the passive investor itself.

On 21 October 2013, the HKSE granted the Company a waiver for all banking transactions of a revenue nature with Temasek itself (the 2013 Waiver). Under this waiver, the announcement requirement and the requirement to enter into a written agreement and set an annual cap and the reporting (including annual review) requirement under the relevant rules in Chapter 14A have been waived for the three-year period ending 31 December 2015 on the conditions that:

i) the Company will disclose details of the 2013 Waiver (including the nature of the revenue banking transactions and reasons for the 2013 Waiver) in its subsequent annual reports

ii) the Company will continue to monitor the revenue banking transactions with Temasek during the three-year period ending 31 December 2015 to ensure that the 5 per cent threshold for the revenue ratio, calculated in accordance with Chapter 14 of the HK Listing Rules will not be exceeded

The Company set out the following main reasons for seeking the 2013 Waiver:

- In view of the nature and terms of the transactions, which may vary from time to time, from client to client and from transaction to transaction, particularly the foreign exchange and derivatives and financial markets transactions, having fixed-term written agreements (as required under the HK Listing Rules) would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek). It would be impractical and unduly burdensome to require the Company to enter into fixed written agreements with Temasek in respect of those banking transactions of a revenue nature
- The Company also explained that it would be impracticable for the Company to estimate and determine an annual cap on the banking transactions of a revenue nature. The volume and aggregate value of each of those transactions that may be undertaken by Temasek are uncertain and unknown to the Company as a banking group and depend on multiple factors. They include the range of banking products and services offered by the Company, fluctuations in the wide range of industries in which Temasek and its associates operates, and external financial market and economic conditions
- While the amount of revenues generated from banking transactions of a revenue nature was minimal, the notional amounts of these transactions could be significant. Without the availability of a waiver from the HKSE or an applicable exemption, these revenue banking transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results

As a result of the Passive Investor Exemption and the 2013 Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues on a transaction-by-transaction basis.

The Company confirms that, to the best of its knowledge and belief after due inquiry, it did not have any transactions with Temasek or its associates in 2015 that would have required announcement, reporting, annual review or independent shareholders' approval. The Company also confirms that the revenue transactions entered into with Temasek in 2015 were below the 5 per cent threshold for the revenue ratio test under the HK Listing Rules, and therefore satisfied the conditions attached to the 2013 Waiver.

On 19 October 2015, the HKSE extended the 2013 Waiver for another three years ending 31 December 2018 (the 2015 Waiver). Further details of the 2015 Waiver will be disclosed in subsequent annual reports.

The Group has internal systems, processes and procedures in place to identify and monitor non-exempt connected and continuing connected transactions. These are reviewed and updated periodically and their adequacy and effectiveness are subject to internal audit process. The Company will continue to monitor through its internal systems the revenue figures generated from the ongoing banking transactions with Temasek itself during 2016 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded.

## Fixed assets

Details of additions to fixed assets are presented in note 26 to the financial statements on page 295.

## Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 30 to the financial statements on page 298.

## Debenture issues and equity-linked agreements

During the financial year ending on 31 December 2015, the Company made seven issues of debentures and entered into one equity-linked agreement, further details of which are set out in note 28 on page 297.

## Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place. The Board is satisfied that this process constitutes a robust assessment of all of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

**The Risk and capital review on pages 156 to 225 sets out the principal risks, our approach to risk management, including our risk management principles, an overview of our risk management framework and the policies and practices for each risk type. An overview of the Risk Tolerance Statement can be found on pages 25 to 26 of the Strategic report**

## Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Management Team, and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2015 and reported on its review to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit Committee, the Chairman and the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required. The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental risks as well as reviewing the effectiveness of the Company's risk management framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

**The Risk and capital review on pages 156 to 225 describes the Group's risk management structure**

Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk, credit risk and financial crime risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile. The performance of the Group's businesses is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions. In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares.

## Employee policies and engagement

With 84,076 employees representing 135 nationalities across 67 markets, the Group has a number of communication mechanisms that inform employees about matters affecting or of interest to them. A mix of communications channels is used to inform employees of key business activity at a global, regional and business level. The primary channel is the Bridge, the Group's new intranet and business collaboration platform, which is available to over 96 per cent of employees across 67 markets. This new tool allows staff to collaborate and share ideas, and comment on global stories. The Bridge is supported by Group and local newsletters, a single global screensaver, targeted audio calls – for business area or management level – videos and town hall events. Business or time-critical information can be sent directly to employee inboxes through a measurable email marketing platform.

This mix ensures that employees receive relevant information promptly regardless of their business area, geography or access to the intranet.

At an individual level, regular team meetings and discussions with line managers enable employees to discuss and clarify any questions they have about news within and performance of the Group. The twice-yearly formal performance review also provides the opportunity to discuss how the employee, their team and business area contributed to the overall performance of the Group and how any compensation awards relate to this.

We continue to communicate with employees who have left the Group via our Alumni network and all employees, past, present and future and social networking messages via the Group's LinkedIn network and Facebook.

Our employee engagement survey has been an important way for us to gather feedback on how our organisation is working, where our areas of strength are, and how we can further improve. The My Voice survey was launched in 2014 and measures engagement across the Group on a variety of business factors such as leadership, strategy and conduct. In the first year, over 85 per cent of our people across 68 countries completed the survey. The insight gained is being used to inform action plans that intend to resolve highlighted issues.

In addition, targeted local surveys and focus groups seek views on particular topics or from particular groups of employees, and across the Group, many business areas or project groups facilitate employee forums and message boards. Less formal measures of sentiment and engagement include quick polls and conversation on the Bridge.

Combined with almost 40 employee networks across 18 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

In 2014, the Group refreshed its Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy, reinforcing the Group's commitment to providing equality of opportunity and fair treatment in employment. It does not accept unlawful discrimination in its recruitment and employment policies, terms, procedures, processes and decisions on the grounds of: race; colour; nationality; national or ethnic origins; gender; parental status; marital or civil partner status; sexual orientation; gender identity, expression or reassignment; HIV or AIDS status; employment status; flexibility of working arrangements; disability; age; religion; or belief. The Group appoints, trains, develops, rewards and promotes employees on the basis of their merit and ability. If employees become disabled, every endeavour is made to ensure their employment continues, with appropriate training and workplace adjustments where necessary.

Action may be taken to address disadvantage or under representation among specific groups, with the aim of ensuring that employment decisions are free from bias.

The Group does not tolerate any bullying or harassment of, discrimination against, or victimisation of staff, clients, or visitors of the Group, whether verbal, written, physical or psychological. All staff have a duty to treat all those with whom they come into contact through work with dignity and respect at all times. This is also enshrined in our Group Code of Conduct, which states that colleagues must be treated fairly and with respect, and that all employees are entitled to a safe working environment that is inclusive and free from discrimination, bullying and harassment.

Sharesave is provided to engage employees in the Group's performance and offer them an opportunity for long-term savings and a share in the financial success they help to create.

### Major customers

Our five-largest customers together accounted for 3.7 per cent of our total interest income and other operating income in the year ended 31 December 2015.

### Group Code of Conduct

The Board has adopted a refreshed Group Code of Conduct (the 'Code') relating to the lawful and ethical conduct of business and this is supported by the Group's core values.

It has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Employees are asked to recommit to the Code annually, and this was done during November 2015. Further details concerning the Code can be found on page 20.

### Environmental and social risk management

The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. This encompasses risks associated with clients' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business.

The Board receives regular information to identify and assess significant risks and opportunities arising from environmental and social matters. These issues are overseen by the Brand, Values and Conduct Committee. The Committee reviews sustainability priorities, and oversees the development of, and delivery against, public commitments regarding the activities and/or businesses that the Group will or will not accept in alignment with our Here for good brand promise.

Environmental and social risks are explicitly identified in the Group's policies and procedures. We have disclosed a series of 20 sector-specific and thematic Position Statements that apply to the provision of debt, equity and advisory services to all clients. We have adopted the Equator Principles that set requirements for identifying, assessing and mitigating the environmental and social impacts associated with the financing of projects and related advisory services.

The Group reports on its environmental and social performance through the Group's Annual Report and Accounts and through the sustainability section of the Group's website.

## Environmental impact of our operations

We aim to minimise the environmental impact of our operations as part of our commitment to being a responsible company.

We report on energy, water, paper and waste data that are the basis of our Greenhouse Gas (GHG) emissions management as well as the targets we have set to reduce energy, water and paper use.

### Total Scope 1, 2 and 3 Greenhouse Gas emissions for 2014 and 2015

| Indicator | 2014 | 2015 | Units |
|---|---|---|---|
| Full-time employees (FTE) covered by reporting | 90,940 | **84,076** | FTE |
| Net internal area of occupied property covered by reporting | 1,308,959 | **1,261,320** | $m^2$ |
| Annual operating income (1 October 2014 to 30 September 2015) | 18,105 | **17,566** | $million |
| **Greenhouse Gas emissions** | | | |
| Scope 1 emissions (combustion of fuels) | 20,144 | **16,904** | tonnes $CO_2$eq/year |
| Scope 2 emissions (purchased electricity) – location-based method | 192,403 | **184,912** | tonnes $CO_2$eq/year |
| Scope 2 emissions (purchased electricity) – market-based method | 192,403 | **184,912** | tonnes $CO_2$eq/year |
| Total Scope 1 & 2 emissions | 212,547 | **201,816** | tonnes $CO_2$eq/year |
| Scope 3 emissions without distance uplift (air travel) | 55,296 | **54,519** | tonnes $CO_2$eq/year |
| Scope 3 emissions with distance uplift (air travel) | 60,273 | **59,426** | tonnes $CO_2$eq/year |
| Scope 3 emissions (outsourced data centre) | – | **19,339** | tonnes $CO_2$eq/year |
| Total Scope 1, 2 & 3 emissions | 267,843 | **256,335** | tonnes $CO_2$eq/year |
| Total Scope 1, 2 & 3 emissions/FTE | 2.95 | **3.05** | tonnes $CO_2$eq/FTE/year |
| Total Scope 1, 2 & 3 emissions/$m^2$ | 205 | **203** | kg $CO_2$eq/$m^2$/year |
| Total Scope 1, 2 & 3 emissions/operating income | 14.79 | **14.59** | tonnes $CO_2$eq/$m/year |

Our reporting criteria document sets out the principles and methodology used to calculate the GHG emissions of the Group.

**For additional information, review the reporting criteria at on.sc.com/EnvironmentCriteria. A summary is provided below**

Our reporting methodology is based upon the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition)[1].

We report on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations. Using conversion factors from the UK Government's 2015 GHG Conversion Factors for Company Reporting[2], emissions are reported in metric tonnes of carbon dioxide equivalent ($CO_2$e)[3], encompassing the six Kyoto gases.

Our definition of different emission sources is provided on this page.

### Scope 1

Scope 1 emissions are defined as arising from the consumption of energy from direct sources, such as by burning diesel within generators, during the use of property occupied by the Group.

### Scope 2

Scope 2 emissions are defined as arising from the consumption of indirect sources of energy, such as consumption of purchased electricity and heat, during the use of property occupied by the Group.

In accordance with the amendment issued to the GHG Protocol in 2015, we report Scope 2 emissions under both location-based and market-based methods. However, we have not used location-based emission factors and as a consequence, both results are the same. This is based on our reservations concerning the attribution of reduced electricity emissions and the potential for 'double-counting'. We will continue to monitor the development of Scope 2 Quality Criteria, as well as the development of residual mixes by national agencies.

The Group does not use any form of offset such as green electricity to offset Scope 1 or Scope 2 emissions.

### Scope 3

Scope 3 emissions are defined as occurring as a consequence of the Group's activities, but arising from sources not controlled by us. The Group reports on Scope 3 emissions arising from air travel and our outsourced data centres in Hong Kong and the UK.

1. World Resources Institute and World Business Council for Sustainable Development (WRI/ WBCSD). (2015) GHG Protocol Scope 2 Guidance An amendment to the GHG Protocol Corporate Standard, WRI/ WBCSD
2. Department for Fisheries and Rural Affairs (Defra), Government conversion factors for company reporting (2015). http://www.ukconversionfactorscarbonsmart.co.uk/
3. A tonne of carbon dioxide equivalent means one metric tonne of carbon dioxide or an amount of any other Greenhouse Gas with an equivalent global warming potential (calculated consistently with international carbon reporting practice)

   GHGs include those listed by Kyoto Protocol: carbon dioxide ($CO_2$); methane ($CH_4$); nitrous oxide ($N_2O$); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs) and sulphur hexafluoride ($SF_6$)

## Reporting period

The reporting period of our environmental data is from 1 October 2014 to 30 September 2015. This allows sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same time period rather than the calendar year used in financial reporting.

## Assurance

Our Scope 1 and 2 emissions are assured by an independent body, PwC, against the requirements of ISA 3410.

## Community engagement

We work with local communities to help promote social and economic development across our markets. In 2015, we invested a total of $60.3 million to support our local communities. This includes cash contributions of $24.5 million and indirect contributions such as employee time totalling $20.0 million. Our community programmes focus on health and education, with youth as a target demographic. Our global community programmes include Seeing is Believing to address avoidable blindness; Positive Living to promote education and awareness on HIV and AIDS; Goal to empower girls and young women through sports and life skills training; and financial education to build the financial capability of youth and entrepreneurs. We offer our employees three days' paid leave to volunteer. In 2015, 57 per cent of staff contributed 77,900 volunteering days.

## HIV and AIDS procedure

HIV and AIDS remain a serious challenge across our markets and impacts our employees and communities. In 2015, we strengthened our HIV and AIDS procedure to better support our employees through non-discrimination and non-disclosure clauses. The HIV and AIDS procedure is part of the Group Benefits Policy and applies to all staff and their families globally.

**For more information, please refer to sc.com/sustainability**

## Electronic communication

The Board recognises the importance of good communications with all shareholders. Our directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future, please contact our registrars at the address on page 350.

**Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at investorcentre.com**

## Annual General Meeting

Our AGM will be held at 11:00am (UK time) (6:00pm Hong Kong time) on 4 May 2016 at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Details of the business to be conducted are contained in the Notice of AGM.

Our 2015 AGM was held on 6 May 2015 at 11:00am (London time) (6:00pm Hong Kong time) at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Special business at the meeting included the approval of the power to allot ECAT1 Securities for cash without certain formalities. All resolutions were passed at the meeting.

## Non-audit services

The Group's non-audit services policy (the 'Policy') was last reviewed and approved by the Audit Committee in 2014. The policy is based on a number of core principles. The overriding principle is that, to avoid any actual or perceived conflicts of interest, the Group's auditors should only be used when either there is evidence that there is no alternative in terms of quality and cost and there is no conflict with their duties as auditors; or where the Group's statutory auditors are required to be used by regulatory or legal requirements. The policy clearly sets out the criteria for when the Audit Committee's prior written approval is required. Subject to this overriding principle, the Audit Committee's view is that KPMG can be of value in a wider range of activities than just financial statement audit, and, where a non-audit service demands these qualities, KPMG should be allowed to tender, subject to the Accounting Practices Board's (APB) ethical standards and the terms of the policy. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services.

The APB sets out various threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires KPMG to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retain the decision-making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgement as to its validity. Accordingly, the Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them, if a non-audit service is to be permitted.

The policy is not a proscribed list of non-audit services that KPMG is permitted to provide. Rather, each request for KPMG to provide non-audit services will be assessed on its own merits. The Audit Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for KPMG to provide non-audit services while (ii) preserving sufficient flexibility for the Group to engage KPMG to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising KPMG's objectivity and independence.

KPMG's objectivity is of particular value to the Group in the context of providing non-audit services that relate to the provision of an independent view, benchmarked either against external laws, regulations or requirements, or the audit firm's own knowledge of best practices. The policy also specifically incorporates the APB's recommended prohibitions and restrictions on the types of non-audit services that are able to be provided by the audit firm.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are:

- Likely to be permissible under the policy:
  - Audit-related services as defined by the APB – the Group would also extend this to work on investor circulars in most foreseeable circumstances
  - An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
  - Testing the robustness of controls infrastructure
  - Due diligence over potential purchases or sales
- Not permissible under the policy:
  - Any services that are prohibited (or to the extent they are restricted) by the APB's published guidance from time to time
  - Aggressive tax or regulatory structuring proposals
  - Any services where fees are paid on a contingent basis (in whole or in part)
  - Consulting services that actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

**Details relating to KPMG's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by KPMG are given in note 8 to the financial statements on page 261**

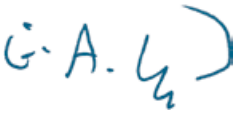
The only significant engagement of KPMG in 2015 for the provision of non-audit services was in respect of the rights issue in November 2015.

## Auditor

The Audit Committee reviews the appointment of the Group statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our Group statutory auditor (details of which can be found on page 83), resolutions to appoint KPMG and to determine its remuneration will be proposed at the 2016 Annual General Meeting.

Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG is made aware of any pertinent information.

By order of the Board



**Liz Lloyd**
*Group Company Secretary*
23 February 2016

Standard Chartered PLC

Registered No. 966425

# Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and applicable law, and have elected to prepare the Company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that year. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Strategic report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group.

### Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

**Andy Halford**
*Group Chief Financial Officer*

23 February 2016