

# Connecting customers to opportunities



# Who we are and what we do

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We serve around 58 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 81 countries and territories in Europe, the Asia-Pacific

region, the Middle East, Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 129 countries and territories.

## HSBC's vision

### Purpose

#### Reason why we exist

Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose.

### Values

#### How we behave and conduct business

We act with courageous integrity by being:

- dependable and doing the right thing
- open to different ideas and cultures; and
- connected to customers, regulators and each other.

### Strategy

#### Where and how we compete

- international network connecting faster-growing and developed markets
- develop Wealth Management services and invest in Retail Banking only in markets where we can achieve profitable scale

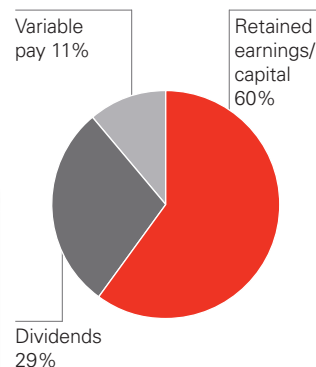


See page 17

### Outcome

#### Being the world's leading international bank

Our pro forma profit allocation in 2012:



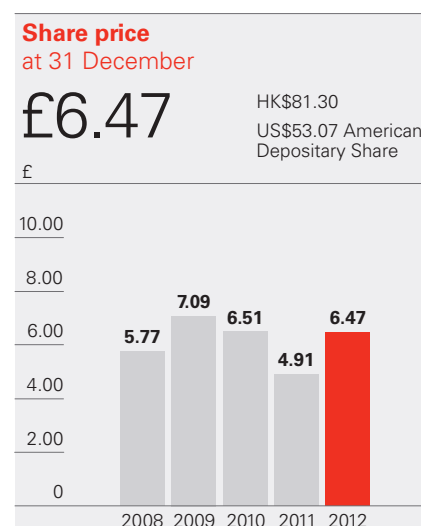
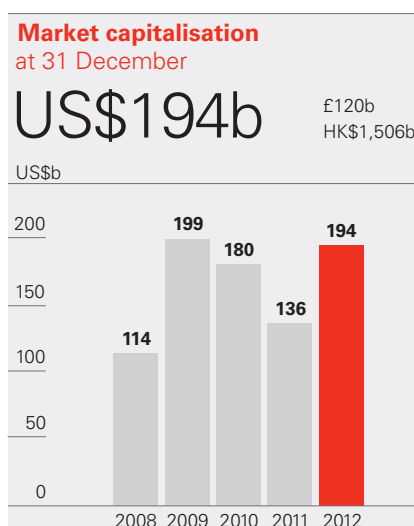
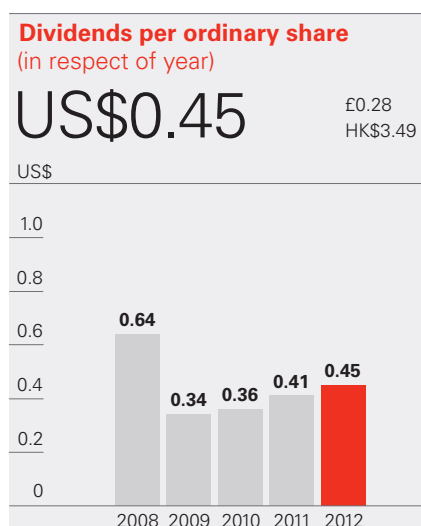
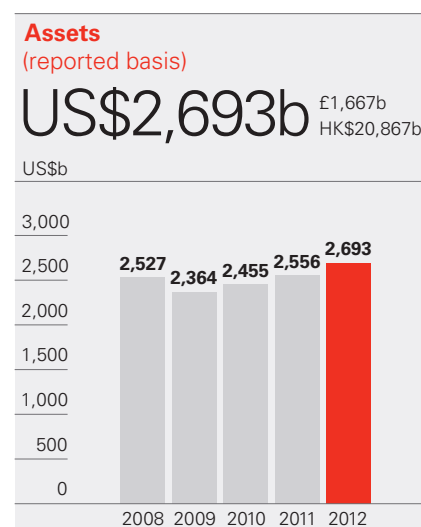
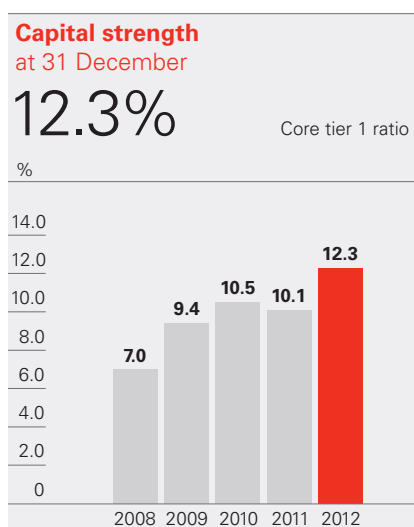
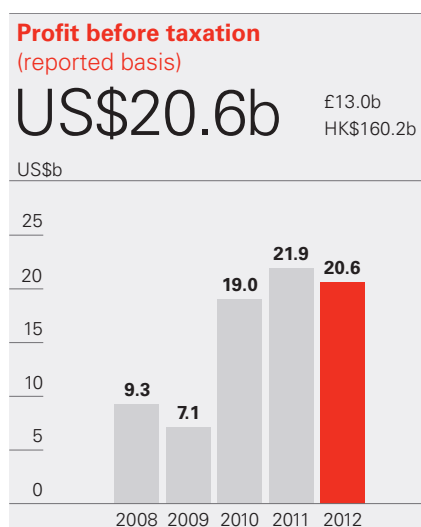
**Financing trade has always been at the heart of HSBC's business, especially in our home market of Hong Kong. Today, Hong Kong International Airport is the world's busiest air cargo hub, with its freight volume accounting for over one-third of the total value of Hong Kong's external trade. As well as serving cities all over the world, flights from the airport also connect the territory to about 50 cities in mainland China. For more about China's growing economic power, and the increasing importance of its currency, the renminbi – especially in trade settlement – see page 18.**

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# Highlights of 2012

- Underlying revenues up 7% led by Global Banking and Markets and Commercial Banking, but reported revenues were down 5%.
- Considerable progress in delivering on strategic priorities, including disposal or closure of 26 businesses and non-core investments announced in 2012, making HSBC easier to manage and control.
- Re-established HSBC's position as one of the best-capitalised banks in the world: based on our current understanding of capital rules, we are extremely well-placed with regard to Basel III compliance.
- Capital strength creates capacity for organic growth and allows us to increase the dividends paid to our shareholders to US\$8.3b.



*Unless otherwise stated, our performance is presented and discussed on a reported basis. When reference to 'underlying' is made in tables or commentaries, information has been expressed at constant currency (see the Annual Report and Accounts 2012, page 25), eliminating the impact of fair value movements in respect of credit spread changes on HSBC's own debt and adjusting for the effects of acquisitions and disposals as reconciled on page 28 of the Annual Report and Accounts 2012.*

# Global businesses

HSBC's four global businesses cater for clients' varied needs, from individuals and small businesses to governments and institutions. Managed on a global basis, the businesses set their strategies within the overall parameters of the Group strategy jointly with our geographical regions.

## Retail Banking and Wealth Management

### Overview and highlights of 2012

HSBC provides retail banking products and services including loans, mortgages, life insurance, savings accounts and current accounts to over 54 million customers across the world.

In 2012, our profit before tax was US\$9.6 billion, up from US\$4.3 billion in 2011. This reflected net gains from a number of strategic transactions, including US\$3.7 billion from the disposal of the Cards and Retail Services business and non-strategic branches in the US. On an underlying basis, profit before tax increased by US\$3.1 billion, reflecting lower loan impairment charges in the US, and higher insurance profits in Hong Kong and Brazil. We saw underlying revenue growth in all faster-growing regions as we continued to reshape the business in line with our strategy. These factors were partly offset by increased provisions relating to customer redress programmes in the UK.

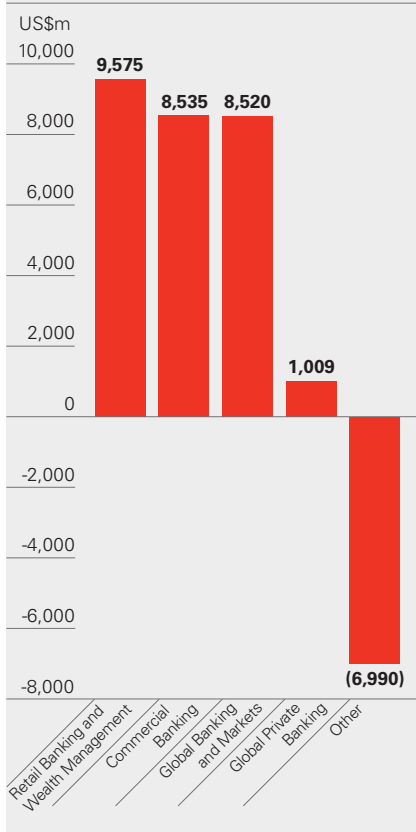
### Strategic focus

Our strategy is to develop retail banking and wealth management products of a high standard, including those from our insurance and asset management business, for personal customers in markets where we have the scale to do so cost-effectively. We leverage our global expertise to improve customer service and our own efficiency. We are reshaping our portfolio of businesses globally to focus our capital and resources on key markets.



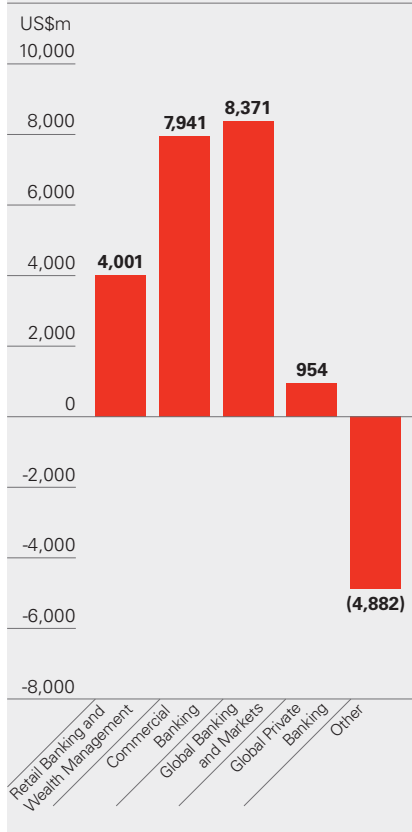
### Profit before tax by global business 2012 (reported basis)

US\$20,649m



### Profit before tax by global business 2012 (underlying basis)

US\$16,385m



Underlying basis eliminates the impact of fair value movements in respect of credit spread changes on HSBC's own debt and adjusts for the effects of acquisitions and disposals as reconciled on page 28 of the Annual Report and Accounts 2012. It does not exclude notable items.

## Commercial Banking

### Overview and highlights of 2012

HSBC's Commercial Banking business serves more than three million customers ranging from small and medium-sized enterprises to publicly quoted multinational firms, in over 60 countries. In 2012, it was ranked 'number one global trade finance bank in the world' in the Oliver Wyman Global Transaction Banking Survey.

We achieved a record reported profit before tax of US\$8.5 billion in 2012, up 7 per cent on 2011. On an underlying basis, revenues rose in every region and customer deposits increased by 9 per cent. We continued to expand our capabilities in the Chinese currency, the renminbi, which is fast establishing its international status. We further developed our network of international relationship managers, and continued our collaboration with Global Banking and Markets to provide a wide range of products, such as foreign exchange and project and export finance, to our customers.

### Strategic focus

We are strengthening our leading position in international trade by focusing on faster-growing markets, facilitating trade and capital flows across the world, and supporting the growth of small and medium-sized enterprises with international ambitions. We collaborate with HSBC's other global businesses to offer our clients a range of the Group's services.



## Global Banking and Markets

### Overview and highlights of 2012

Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide. Profit before tax in 2012 was US\$8.5 billion, 21 per cent higher than in 2011. Global Banking and Markets is well positioned for growth in faster-growing regions, with record reported revenues in Hong Kong, the Rest of Asia-Pacific and Latin America.

We continued to reshape the business in line with our strategy by enhancing product capabilities and investing and recruiting in the key strategic markets of Hong Kong, the Rest of Asia-Pacific and Latin America. We consolidated our leading position in international renminbi services, issuing the first renminbi bond outside of Chinese sovereign territory.

### Strategic focus

We aim to be a leading international wholesale bank, continuing with our well-established emerging markets-led and financing-focused strategy. This strategy has evolved to include more emphasis on connectivity, taking advantage of HSBC's extensive distribution network. We are investing selectively in the business to ensure the delivery of an integrated suite of products and services for our international client base.

## Global Private Banking

### Overview and highlights of 2012

Global Private Banking serves high net worth individuals and families to help them manage and preserve their wealth, connecting them to global opportunities. Profit before tax in 2012 was US\$1.0 billion, up 7 per cent on 2011. However, on an underlying basis, profit before tax was broadly unchanged as lower operating expenses and loan impairment charges were mainly offset by lower revenues.

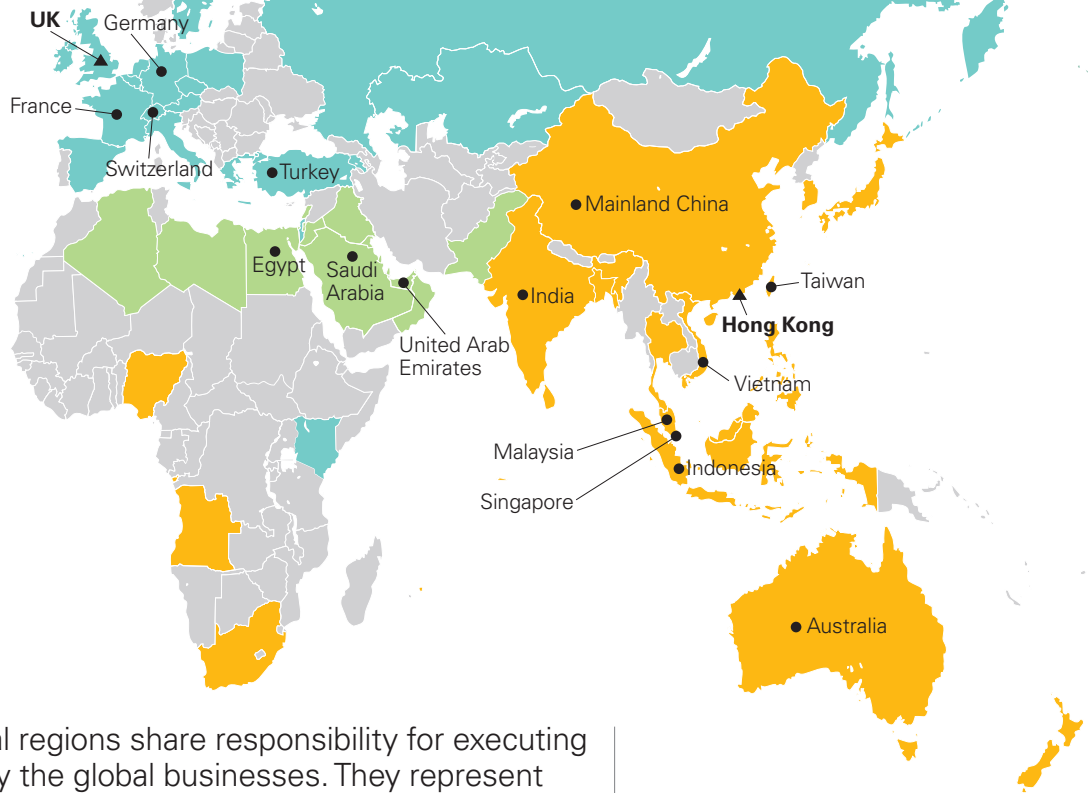
In line with our strategy, in 2012 we sold or closed a number of non-strategic businesses, including our operations in Japan and our UK property advisory business, in order to focus on priority markets. We further improved our risk framework, consistent with our ambition to have the highest standards of compliance and transparency in the industry.

### Strategic focus

We are implementing a new operating model to manage the business globally and serve client needs better. We will focus our investment on the most attractive developed and faster-growing wealth markets, capturing opportunities for growth. Our collaboration with Commercial Banking is aimed at accessing entrepreneur wealth creation.



# Regions



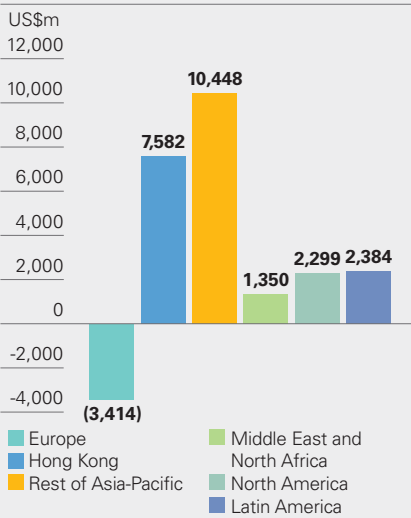
Our six geographical regions share responsibility for executing the strategies set by the global businesses. They represent HSBC to our stakeholders, including our clients, regulators and employees. They allocate capital, manage risk appetites, liquidity and funding by legal entity, and are accountable for profit and loss performance in line with global business plans.

## Europe

In 2012, our European operations recorded a pre-tax loss of US\$3.4 billion. On an underlying basis, pre-tax profits were US\$699 million, a decrease of US\$930 million compared with 2011 due to additional provisions relating to customer redress programmes in the UK, which were partly offset by higher Global Banking and Markets revenues, notably in the Rates and Credit businesses as spreads tightened and investor sentiment improved. We made progress against our strategy, achieving US\$770 million of sustainable cost savings, and completing the disposal of a number of non-core businesses, enabling us to focus on our priority growth markets. In our home market of the UK, we grew our share of new mortgage lending and continued to invest in our Commercial Banking operations, increasing the number of international relationship managers and launching a small and medium-sized enterprise fund to support businesses that trade, or aspire to trade, internationally.

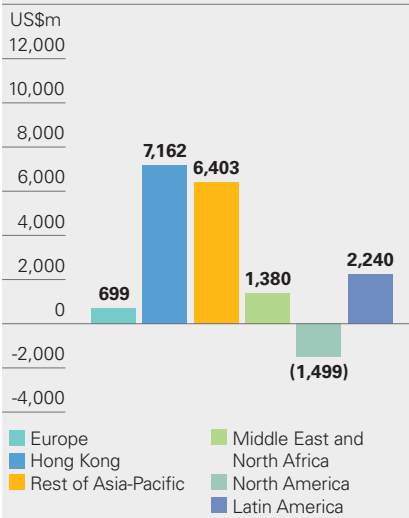
**Profit before tax by geographical region 2012 (reported basis)**

US\$20,649m



**Profit before tax by geographical region 2012 (underlying basis)**

US\$16,385m



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## North America

HSBC's North American operations recorded a profit before tax of US\$2.3 billion, up from US\$100 million in 2011, reflecting gains on business disposals. On an underlying basis, our pre-tax loss decreased by US\$1.6 billion, reflecting lower loan impairment charges in our consumer finance portfolio in run-off, which was partially offset by higher operating expenses due to fines and penalties paid as part of the settlement for inadequate compliance with anti-money laundering laws. In line

with our strategy, we completed the sale of our US Card and Retail Services business and 195 non-strategic retail branches, and sold our full-service retail brokerage business in Canada. We continued to reposition our operations to focus on international customers; for example, the number of relationship managers rose in areas with strong international connectivity, such as the West Coast, South-east and Midwest of the US. Global Trade and Receivables Finance revenues rose in the US and Canada, and our Canadian operations recorded a record profit before tax of US\$1.1 billion.

## Latin America

Our operations in Latin America reported a profit before tax of US\$2.4 billion, up 3 per cent on 2011, despite an increase in loan impairment charges. We made good progress in reducing the fragmentation in our Latin American businesses through closures and disposals in non-strategic markets. These transactions and measures to improve operational efficiency helped us to achieve additional sustainable savings.

### Key

- ▲ Our home markets
- Our priority growth markets

## Hong Kong

Our reported pre-tax profits in Hong Kong grew to US\$7.6 billion, up 30 per cent compared with 2011. We retained our market leading position in life insurance, mortgages and credit cards, and began offering renminbi current accounts to non-residents. In Commercial Banking, we leveraged our international connectivity and increased trade-related revenues by 10 per cent, particularly with mainland China. We led the market in Hong Kong dollar bond issuance and consolidated our position as a leading international bank for offshore renminbi products, completing several high-profile deals for major multinational clients.

## Rest of Asia-Pacific

Our operations in the Rest of Asia-Pacific reported pre-tax profits of US\$10.4 billion, up 40 per cent on 2011. However, on an underlying basis pre-tax profits rose by 2 per cent. We made progress on a number of transactions, including the disposal of our associate Ping An and our retail business in Thailand, enabling us to focus on our strategic priorities. We continued to invest in our branch network in mainland China, ending the year with 141 HSBC Bank (China) outlets, 20 HSBC rural bank outlets, and 46 Hang Seng Bank outlets. We further invested in our associate, Bank of Communications, reinforcing HSBC's position as the leading foreign bank in mainland China. In Malaysia, HSBC now has the largest branch network among foreign banks.

Lending balances and trade revenues grew as we capitalised on our global network, and the number of our China desks increased to 14 worldwide.

## Middle East and North Africa

Our operations in the Middle East and North Africa recorded a profit before tax of US\$1.4 billion, a decrease of 10 per cent compared with 2011. We pursued opportunities for growth, with strategic acquisitions in Oman and the United Arab Emirates, increased customer deposits in Egypt, and grew Wealth Management revenues.

Our support for the region's exporters was recognised when we were named 'Best trade finance bank in the Middle East and North Africa' by the *Global Trade Review* for the fifth year running. We continued to simplify our operations, disposing of non-core businesses and achieving approximately US\$70 million in sustainable savings.

# A challenging year in banking



Douglas Flint Group Chairman

“Banking has been given a huge wake-up call and we are determined to play our part in restoring its reputation and thereby regaining society’s trust.”

2012 was a year of considerable progress in delivering on the strategic priorities which the Board has tasked management to address. Our decision to focus on reshaping the Group through targeted disposals and closures and internal reorganisation is paying dividends. It is bringing greater clarity and focus and is delivering sustainable cost savings while allowing incremental investment to be available and directed towards the areas of greatest opportunity.

This progress is all the more notable given that during 2012, the banking sector, including HSBC, faced continuing and in many ways unprecedented challenges. Banking has been given a huge wake-up call and we are determined to play our part in restoring its reputation and thereby regaining society’s trust. Thus our restructuring agenda is not only justified economically but is helping the Group shape its response to the media, the regulatory and political challenges, and societal expectations which, simply put, all revolve around restoring the trust of all stakeholders. From depositors to investors, regulators to employees, public policy makers to consumer lobbyists we need to



ensure the business model of banking is fair, transparent, sustainable and meeting its core objective of serving society.

Never has it been more important to put the customer first and provide the means and support to help them fulfil their financial aspirations and ambitions. That is our prime purpose and one of which we should never lose sight.

Over the last two years the Board was exercised greatly by the major US regulatory and law enforcement investigations we faced. I covered the background to these investigations, settlement of which we reached in December, in our *Interim Report*.

Management is now delivering the required enhancements to our control framework and on top of this we have significantly augmented the Board's oversight and governance capabilities. This is dealt with in more detail below.

Encouragingly, there is now growing external recognition of the progress being made in delivering against our stated strategic priorities. This, together with our overweight exposure to the world's more attractive economies, contributed to a total shareholder return of 39 per cent over the year – 7 per cent from dividends paid and 32 per cent from share price appreciation. Over the course of the year the market capitalisation of HSBC grew by US\$58 billion, from US\$136 billion to US\$194 billion, returning shareholders once again to the position where their company is worth more than its contributed capital. We remained among the highest dividend payers in the FTSE 100, a performance which we know is of great importance to our shareholders.

The cover to this year's *Annual Review* again illustrates our strategy of connecting customers and markets. The scene depicted is the cargo terminal at Hong Kong International Airport, which has been ranked as the busiest airport for international air cargo since 1996. Today the airport's trade throughput represents over one-third of Hong Kong's external trade. HSBC's connection with trade financing and trade services through Hong Kong goes back to our earliest days and remains one of our core strengths. Projections of trade growth in Asia and Hong Kong's role therein reinforce our investment focus in this area.

### **Performance in 2012**

There was much to be positive about in HSBC's performance in 2012. The majority of our core businesses in Asia, particularly in Hong Kong, continued to perform well, achieving good underlying revenue growth in the year. Increased market confidence around eurozone recovery contributed to a significant turnaround in Global Banking and Markets results in Europe. Targeted disposals and the continuing run-off from our exit portfolios in the United States, together with evidence of recovery in many housing areas, were reflected in significantly lower US loan impairment charges.

Progress in managing costs to reflect a lower economic growth environment in developed markets was encouraging. Offsetting these positive factors, credit demand remained muted throughout Europe, low interest rates continued to constrain the value of our liquid balance sheet and customer redress costs continued to weigh heavily in the UK.

The 'Group Chief Executive's Business Review' covers financial performance and progress on strategy delivery in more detail on pages 12 to 16.

Reported results include the benefit of profits arising from the significant disposals made in the year as well as bearing the burden of the fines and penalties levied as part of the settlement with US regulatory and law enforcement agencies and increased customer redress provisions in the UK. When the Board assesses management performance as part of reward measurement, these disposal gains are eliminated but the legal settlement and customer redress costs are not.

Looking through the reported results to underlying financial performance, the Board viewed positively the 2012 outcome.

Although earnings per share of US\$0.74 were 20 per cent lower than 2011, this largely reflected a US\$9.1 billion negative swing in the fair value of our own debt as credit spreads tightened, together with a higher tax rate.

With the Group's capital position strengthened from retained profits and from capital released from the divestments made in the year, the Board has approved a 29 per cent increase in the final dividend in respect of the year to US\$0.18 per share, US\$0.04 higher than the final dividend in respect of 2011. Total dividends in respect of 2012 of US\$8.3 billion, amounted to US\$0.45 per share, US\$0.9 billion higher than in 2011. The Board also intends to increase the quarterly dividends in respect of the first three quarters of 2013 by US\$0.01 per share to US\$0.10 per share.

Shareholders' equity at the end of 2012 stood at US\$175 billion, US\$17 billion or some 10 per cent higher than at the beginning of the year. The core tier 1 capital ratio strengthened from 10.1 per cent to 12.3 per cent and the Group remains on track to deliver compliance with the more onerous Basel III requirements in the accelerated timetable being sought by UK regulators.

**“There was much to be positive about in HSBC's performance in 2012. The majority of our core businesses in Asia, particularly in Hong Kong, continued to perform well, achieving good underlying revenue growth in the year.”**

During 2012, the UK government increased the rate of levy applied on the global balance sheets of UK-domiciled banks. The cost to HSBC of the revised levy for the current year was US\$571 million of which US\$295 million related to non-UK banking activity. The 2012 levy, which is not tax deductible, is the equivalent of US\$0.03 per ordinary share and, as indicated last year, would otherwise have been available for distribution to shareholders or used to strengthen the capital base further.

### **Progress on regulatory reform**

2012 was a further year of progress in delivering key elements of the regulatory reform agenda mandated by the G20 in response to the financial crisis. After a long consultation period, the proposed Liquidity Coverage Ratio within the Basel III framework was recalibrated to better match industry experience, and so strengthen bank liquidity without unnecessarily constraining credit formation.

## Group Chairman's Statement (*continued*)

The list of banks to be designated as globally significant was announced and, as expected, HSBC was one of four placed in the highest category. Good progress was made on clarifying the possible approaches to resolving the failure of a bank with operations in multiple jurisdictions. One approach was directly applicable to the subsidiarised model favoured by HSBC.

On structural reform of banking entities, the Liikanen Group in Europe produced its report for consideration while draft alternatives have been proposed in France and Germany. In the UK, the Government substantially accepted the recommendations of the Independent Commission on Banking in a policy paper and a draft Financial Services (Banking Reform) Bill is expected to be approved in the first half of 2013. Thereafter, the government has signalled its intention to pass secondary legislation by the end of this parliament in 2015, with final implementation of the new regime by 2019.

The key structural change being legislated remains the separation of certain banking activities for personal and small business customers into a ring-fenced bank with its own financial and governance arrangements. The recently appointed Parliamentary Commission on Banking Standards in the UK has reviewed the proposed legislation and *inter alia* recommended strengthening the ring fence by empowering regulators to force full separation in the event of attempts to frustrate the objectives of the ring fence.

**“The key structural change being legislated [in the UK] remains the separation of certain banking activities for personal and small business customers into a ring-fenced bank with its own financial and governance arrangements.”**

Ongoing work remains extensive. Major areas of policy development covering augmenting loss absorbency through bailing-in certain categories of creditor, addressing the systemic impact of central clearing counterparties, establishing a banking union within the eurozone and revisiting the risk weighting of assets to enhance transparency and consistency, are among the most important.

On top of this, the UK Parliamentary Commission on Banking Standards is currently examining all aspects of conduct, behaviour and culture with a view to making recommendations designed to restore trust and confidence in banks.

We are committed to working constructively with public policy makers and our regulators to give effect to these proposals. We note, however, two areas of concern.

First, it is perplexing that, after the great international effort invested in the G20 programme of sound and consistent global financial regulation, and the extent of reform currently under way, an increasing number of countries now appear to be acting unilaterally, thereby putting globally consistent regulation at risk of fragmentation and 'balkanising' the capital and liquidity resources of firms.

Second, we believe the sheer scale and timescale of the reform programme is hampering investors' line of sight to the long-term returns available.

Resolving these two issues, which will require inter-governmental direction and co-operation, would contribute to enhancing the ability of the industry to support the economic growth agenda now being prioritised in most parts of the world.

### **Enforcing global standards**

The Board is determined to adopt and enforce the highest behavioural and compliance standards in HSBC. For well documented reasons, the last two years have been extremely damaging to HSBC's reputation and to our perception of ourselves. We faced serious failings both in the application of our standards and in our ability to identify, and so prevent, misuse and abuse of the financial system through our networks. Our strategy is entirely configured to eliminate the possibility of this happening again.

We have apologised unreservedly to all our stakeholders and have paid huge penalties both in monetary cost and reputational damage. More important than apologies, however, are the steps being taken to prevent recurrence. Management under Stuart Gulliver, the Group Chief Executive, is leading the work to simplify business and so reinforce risk management and control.

Our success in meeting our objectives will be subject to independent validation not simply through ongoing regulatory review but additionally through the appointment of an independent Monitor who will report to both UK and US authorities. We welcome the additional rigour this will bring to the process of upgrading and enforcing our global standards.

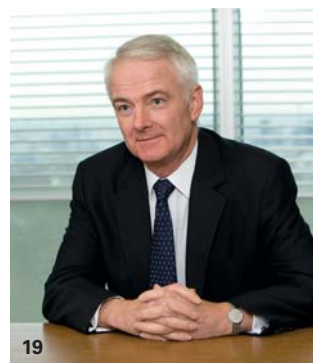
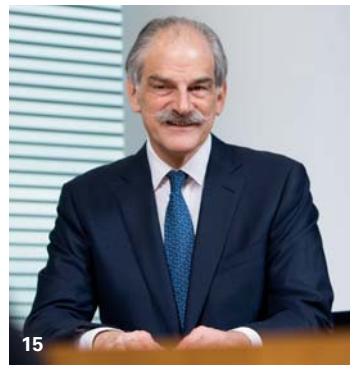
To reinforce the Board's ability to exercise rigorous governance over these endeavours, we announced the creation of a new Board committee, the Financial System Vulnerabilities Committee on 30 January 2013. This committee will provide governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may become exposed and, through that exposure, expose the financial system more broadly to financial crime or system abuse.

Five subject matter experts drawn from the highest levels of public service will support the committee. Their expertise includes the combating of organised crime, terrorist financing, narcotics trafficking, tax evasion and money laundering as well as expertise in intelligence gathering and international payments systems. They will provide invaluable guidance and advice, and most importantly challenge, as we strengthen our capabilities and enforce the highest standards. Further details of the background and experience of these individuals are contained in the Directors' Report in the *Annual Report and Accounts*.

Recognising the need to augment the Board's own experience and expertise we have also added specialist expertise at Board level.

### **Our Board**

- |   |  |
|---|--|
| <b>1 Sir Simon Robertson,</b><br><i>Deputy Chairman</i>   | <b>10 John Coombe</b>  |
| <b>2 Douglas Flint,</b><br><i>Group Chairman</i>          | <b>11 Joachim Faber</b>  |
| <b>3 Stuart Gulliver,</b><br><i>Group Chief Executive</i> | <b>12 Jim Comey</b>  |
| <b>4 Iain Mackay,</b><br><i>Group Finance Director</i>    | <b>13 Rachel Lomax</b>   |
| <b>5 Rona Fairhead</b>                                    | <b>14 James Hughes-Hallett</b>   |
| <b>6 Marvin Cheung</b>                                    | <b>15 John Lipsky</b>  |
| <b>7 Renato Fassbind</b>                                  | <b>16 Laura Cha</b>  |
| <b>8 John Thornton</b>                                    | <b>17 David Shaw, Adviser to the Board</b>                                       |
| <b>9 Sam Laidlaw</b>                                      | <b>18 Safra Catz</b>   |
|   | <b>19 Ralph Barber, Group Company Secretary and Head of Corporate Governance</b> |



## Group Chairman's Statement (continued)

### Board changes

At the end of 2012 we said farewell to Narayana Murthy, who stepped down from the Board after serving with distinction for five years. Narayana, as co-founder and long-term CEO of Infosys, brought to the Board exceptional expertise in technology, operational efficiency and outsourcing matters as well as an in-depth knowledge of India and of international business through his experience on many multinational and educational boards. On behalf of the Board and shareholders I want to record our appreciation and gratitude for his contribution to HSBC.

We welcome two new directors to the Board.

**Renato Fassbind** joined the Board on 1 January and will serve on the Audit and Remuneration Committees. Renato brings to the Board considerable international business and financial expertise from a distinguished career in industrial, service and financial companies. He is currently Vice Chairman of the Supervisory Board and a member of the audit and the compensation committees of Swiss Reinsurance Company, a member of the Supervisory Board and audit committee of Kühne + Nagel International AG and a member of the Supervisory Board of the Swiss Federal Audit Oversight Authority.

Renato stepped down as Chief Financial Officer and a member of the executive board of Credit Suisse Group in September 2010, having served in that role since 2004.

**Jim Comey** joins the Board today and will serve on the newly created Financial System Vulnerabilities Committee. Jim brings to the Board outstanding governance experience from both the private and public sectors. In his private sector roles he acted as General Counsel to leading international businesses and in public life served at the apex of law enforcement in the United States. Most recently, within the private sector, Jim Comey served as General Counsel of Bridgewater Associates, LP and prior to that as Senior Vice President and General Counsel of the Lockheed Martin Corporation. In public life, from 2003 to 2005, he served as US Deputy Attorney General, where he was responsible for supervising the operations of the Department of Justice, and chaired the President's Corporate Fraud Task Force. From 2002 to 2003, he served as US Attorney for the Southern District of New York.

Fuller details of their background and experience are set out in the 'Summary Directors' Report' on pages 31 to 33.

### Social contribution

Much is currently being written and debated about the role banks should play in society. In large part, this reflects the fact that the economic success that underpins a harmonious society depends upon sustainable financing, confidence and trust in the financial system. That trust is founded upon the broader role that banks play in their local communities.

Within HSBC, many of my colleagues make tremendous personal contributions to their communities and I want to take this opportunity to pay tribute to them. HSBC's outreach in terms of community investment is primarily in the areas of education and the environment and, in 2012, in financial terms it amounted to some US\$120 million.

In 2012, we extended our commitment to support disadvantaged and vulnerable young people who are neither in education, employment nor training. We support local and international charities working in this area, and also run our own staff-driven 'Future First' programme, which helps street children, children in care and orphans to access

education. Initiatives under this programme are developed and supported by HSBC colleagues around the world and, in 2012, 2,717 members of staff volunteered to support the programme.

Importantly in all our community work we increasingly look to involve our staff to reinforce our links with the communities we serve. In 2012, for example, 114,982 HSBC colleagues spent 724,650 hours in volunteer activity.

We also launched the HSBC Water Programme last year. This is a five-year, US\$100 million commitment to support Water Aid, WWF and Earthwatch to deliver freshwater and sanitation to poor rural communities in Asia and Africa, educate local communities on sustainable water management in five major river basins around the world, and involve more than 7,500 HSBC staff with local conservation partners to address urban water management issues and learn to carry out scientific water research tasks.

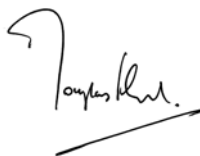
**"...the economic success that underpins a harmonious society depends upon sustainable financing, confidence and trust in the financial system. That trust is founded upon the broader role that banks play in their local communities."**

### Looking ahead

It is often said that people come together in adversity, learning lessons from the past and each other to create the bonds that ensure a better future. I believe that this has happened within HSBC. The last year has been a difficult one for all at HSBC as we addressed the restructuring of the firm against a lower-growth economic backdrop and with legacy issues and regulatory challenges imposing a further set of imperatives. Our 270,000 staff have had to face up to bewildering descriptions of HSBC that contrasted with the way they conduct their relationships with the firm's customers and clients.

What has been inspirational is how everyone has pulled together, focused on the future and committed to do all and everything necessary to restore a reputation that we all believe can be positively distinctive. On behalf of the Board, I want to thank all our employees for that commitment and their loyal support.

I also want to thank our clients and customers, our shareholders, our regulators and those in government who believe, as we do, that we will meet the commitments we have made to allow us better to serve the communities who entrust their financial needs to HSBC.



**Douglas Flint**  
Group Chairman

4 March 2013

# How we manage our business

Our good governance, values, commitment to operating sustainably and robust risk management guide the way we manage our business and help us deliver value to our shareholders and customers.

## Good governance

[See page 30](#)

HSBC's governance structure is focused on delivering sustainable value to our shareholders. The strategy and risk appetite for HSBC is set by the Board, which delegates the day-to-day running of the business to the Group Management Board.

The Board has established non-executive committees including the Group Audit Committee, which oversees financial reporting matters; the Group Risk Committee, which oversees risk-related matters; the Group Remuneration Committee, which sets remuneration policy and senior pay; the Nomination Committee, which leads the process for Board appointments; the Corporate Sustainability Committee, which advises on environmental, social and ethical issues; and recently the Financial System Vulnerabilities Committee, which oversees controls and procedures designed to: 1) identify areas where HSBC may become exposed to financial crime or system abuse and 2) ensure the continuing obligations to regulatory and law enforcement agencies are met.

Global businesses and functions have established operating, financial reporting and management reporting standards for application throughout HSBC.

## Managing our risks

[See page 24](#)

As with all financial services organisations, we have to manage risks in our business. Our focus is on identifying, understanding and dealing with those risks in line with our agreed risk appetite. Robust risk governance and accountability is embedded across HSBC and the Group Risk Committee monitors the effectiveness of our overall risk management. The Board, assisted by the Group Risk Committee, approves HSBC's risk appetite.

Our strong balance sheet and diverse lending portfolio are key factors in managing our risk profile. Our risk management framework also helps us to identify both current and emerging risks, and ensures that our portfolios remain aligned to our risk appetite. We then use this to carry out stress tests to evaluate the impact of those risks.

## Strengthening our values

[See page 25](#)

In line with our ambition to be recognised as the world's leading international bank, we aspire to lead the industry in our standards of conduct. We expect all HSBC employees to act with courageous integrity in the execution of their duties by being:

- dependable and doing the right thing;
- open to different ideas and cultures; and
- connected with customers, communities, regulators and each other.

These values are embedded in the way we do business and in our selection, assessment, recognition and training programmes. Values are crucial to our reputation; so too is the effectiveness of our efforts to secure HSBC's integrity.

## A sustainable business

[See pages 28–29](#)

Financial institutions have responsibilities not only towards their customers, shareholders and employees, but also to the wider communities and environment in which they operate. For HSBC, acting sustainably means building our business for the long term by living up to these responsibilities and valuing relationships with stakeholders.

We connect customers to commercial opportunities which also support the transition to a low carbon economy. Applying environmental and social criteria to our lending decisions in such sectors as forestry and energy is integral to our approach. We have committed to cut our own annual employee carbon emissions by one tonne, from 3.5 to 2.5 tonnes, by 2020.

We also seek to help the communities in which we operate to develop, focusing our investment on education and environmental programmes which help them to flourish for the long term.



# Growing our business



**Stuart Gulliver** Group Chief Executive

“The growth in these [priority] markets was a factor in generating a record reported profit before tax in Commercial Banking as we maintained our position as the world’s largest global trade finance bank...”

HSBC made significant progress in 2012 despite a challenging operating environment characterised by low economic growth and a changing regulatory landscape. We continued to pursue the strategy outlined in May 2011, announcing the sale or closure of 26 businesses or non-core investments, surpassing our sustainable savings target and recording underlying revenue growth in the majority of our faster-growing regions. We also reached agreement with the US authorities and the Financial Services Authority (FSA) in relation to past inadequate compliance with anti-money laundering and sanction laws. Although reported pre-tax profit fell by 6 per cent to US\$20.6 billion in 2012, underlying profit, which includes the impact of fines and penalties and UK customer redress provisions totalling US\$4.3 billion, grew by 18 per cent. This was primarily due to revenue

growth, notably in Global Banking and Markets and Commercial Banking, and lower loan impairment charges in North America. We regard this as a good performance.

Our strategy is founded on a clear sense of purpose – to be where the growth is, connecting customers to opportunities and enabling businesses to thrive, economies to prosper and individuals to realise their ambitions. This has given us clear parameters around the way that we behave and conduct business and where and how we compete.

Since 2011, we have created a consistent global structure with strong governance, consisting of four global businesses and 11 global functions. In 2012, we continued to execute our strategic priorities to grow, restructure and simplify HSBC.

We grew our business in 2012, achieving underlying revenue growth in most of our priority markets. The growth in these markets was a factor in generating a record reported profit before tax in Commercial Banking as we maintained our position as the world's largest global trade finance bank, as reported in the *Oliver Wyman Global Transaction Banking Survey 2012*. The collaboration between Commercial Banking and Global Banking and Markets delivered incremental gross revenues of over US\$0.1 billion in 2012. Wealth Management achieved more than US\$0.5 billion of additional revenues, although further progress is required to achieve our strategic goals.

The restructuring of the US business progressed in 2012 as we continued to run off the Consumer and Mortgage Lending portfolio, resulting in a US\$14 billion reduction in the value of average risk-weighted assets and a reduced loss before tax of US\$3.1 billion, reflecting improved loan impairment charges. Following our agreement with the US authorities and the FSA in December 2012, we are adopting global standards as part of our effort to raise our practices to an industry-leading level. This is part of our wholehearted commitment to protect the integrity of the organisation and the financial system, and to do our part to fight financial crime.

We further simplified the Group structure in 2012, bringing the total number of announced disposals and closures of non-strategic businesses or non-core investments to 47 since the beginning of 2011, including four in 2013.

During 2012, we completed the disposal of the Card and Retail Services business and the upstate New York branches in the United States, and the sale or closure of our retail businesses in Thailand, Honduras, El Salvador and Costa Rica, as well as the full service retail brokerage businesses in Canada. Additionally we announced the sale of our operations in Colombia, Peru, Uruguay and Paraguay.

Following completion of all the announced transactions we will have completed the refocus of Retail Banking and Wealth Management (RBWM) to 20 of our 22 home and priority markets, which represented 98 per cent of the RBWM, excluding US Card and Retail Services and the US run-off portfolio, profit before tax in 2012, plus a limited number of important network and smaller markets.

Notably, on top of the above, we reached agreement in December 2012 to sell our stake in Ping An for an aggregate cash consideration, the equivalent of US\$9.4 billion. This transaction completed in two tranches, in December 2012 and February 2013, generating a profit of US\$3.0 billion. In 2012 our share of Ping An's earnings was US\$0.8 billion.

We also made progress in eliminating unnecessary organisational layers and streamlining various processes, achieving an additional US\$2.0 billion in sustainable cost savings. This takes our total annualised savings to US\$3.6 billion, surpassing our cumulative target of US\$2.5 billion to US\$3.5 billion of sustainable savings since 2011. Taken together, these changes have made HSBC much easier to manage and control.

Although we made some good progress in 2012, the cost efficiency ratio at 62.8 per cent and return on equity at 8.4 per cent were outside our target ranges. These were both affected by UK customer redress provisions, as well as payments we were required to make as part of the settlement of the investigations noted above.

Implementing our strategy can add significant value to HSBC. We are on the right track and remain fully committed to achieving our ambition of being the world's leading international bank.

**“We also made progress in eliminating unnecessary organisational layers and streamlining various processes, achieving an additional US\$2.0 billion in sustainable cost savings.”**

We are investing to build this distinctive international competitive position.

In Retail Banking and Wealth Management, we accelerated the transformation of the Wealth Management business in HSBC with infrastructure investment to improve customer experience and so drive growth. Technology solutions improved the customer offering in foreign exchange services and we introduced enhanced risk profiling and strategic financial planning tools.

In Commercial Banking, we maintained our investment in the faster-growing regions in support of the strong network that helps connect customers with both developed and developing markets as they expand internationally. A great deal of attention is being devoted to the increasing internationalisation of the renminbi. During 2012, we were the first bank to settle cross-border renminbi trade across six continents with capabilities in over 50 countries, offering a competitive advantage to our customers as the renminbi positions to be a major global trade and investment currency. We have expanded our global network of dedicated China desks to cover our top markets, representing about half of the world's GDP. These are staffed by Mandarin-speaking experts who support mainland Chinese businesses to identify new opportunities to expand overseas.

In Global Banking and Markets, we invested in selective recruitment to support key strategic markets. We continued the successful build-out of our equities and e-FX platforms to broaden our product offerings. In Hong Kong we led the market in Hong Kong dollar bond issuance and were the leading bookrunner for high yield bonds in Asia, excluding Japan. We now also rank in the top five of equities brokers in Hong Kong. We reinforced our leading position in the renminbi market in 2012, supporting a number of significant

“During 2012, we were the first bank to settle cross-border renminbi trade across six continents with capabilities in over 50 countries, offering a competitive advantage to our customers as the renminbi positions to be a major global trade and investment currency.”

client transactions and, as an entity, issuing the first international renminbi bond outside Chinese sovereign territory. Reflecting our capabilities in Latin America, the Middle East and Asia-Pacific, HSBC was recognised as the 'Best Global Emerging Markets Debt House' at the 2012 *Euromoney* Awards for Excellence and was also recognised as 'RMB House of the Year' at the 2012 Asia Risk Awards.

I would like to thank all of our employees for their dedication and endurance throughout a difficult year for the bank. They have shown a real sense of passion, pride and duty in the face of critical and often deeply embarrassing media headlines and I too am very grateful for their efforts.





## Group performance headlines

- Reported profit before tax was US\$20.6 billion, US\$1.2 billion lower than in 2011 including US\$5.2 billion of adverse movements in the fair value of our own debt attributable to credit spreads compared with favourable movements of US\$3.9 billion in 2011. This variance of US\$9.1 billion was partially offset by an increase of US\$7.5 billion in respect of gains from the disposal of businesses, notably from the sale of the US Card and Retail Services business and the agreement to sell our stake in Ping An.
- Underlying profit before tax was US\$16.4 billion, up US\$2.5 billion, mainly due to higher revenues and lower loan impairment charges and other credit risk provisions. These factors were partially offset by an increase in operating expenses, primarily reflecting the settlement of the investigations into past inadequate compliance with anti-money laundering and sanction laws and increased provisions for UK customer redress programmes.
- Underlying revenues rose by 7 per cent, led by Global Banking and Markets where the majority of our businesses grew, notably Credit and Rates in Europe, as spreads tightened and investor sentiment improved following stimuli by central banks globally. Commercial Banking also recorded revenue growth as customer loans and advances increased in all regions, with over half of this growth coming from our faster-growing regions of Hong Kong, Rest of Asia-Pacific and Latin America, driven by higher trade-related lending. Customer deposits also rose as we continued to attract deposits through Payments and Cash Management products. In addition, Retail Banking and Wealth Management experienced revenue growth across all faster-growing regions, in particular Hong Kong and Latin America. These factors were partially offset by lower revenue in Global Private Banking, as we focused on repositioning our business model and target client base.
- We achieved growth in reported loans and advances to customers of more than US\$57 billion during the year, notably in residential mortgages and term and trade-related lending. Customer deposits increased by over US\$86 billion, allowing us to maintain a strong ratio of customer advances to customer accounts of 74.4 per cent.
- Underlying costs were US\$4.3 billion higher than in 2011 including payments of US\$1.9 billion made as part of the settlement of the investigations into past inadequate compliance with anti-money laundering and sanctions laws, additional provisions in respect of UK customer redress programmes of US\$1.4 billion, and a credit in 2011 of US\$0.6 billion relating to defined benefit pension obligations in the UK which did not recur. Operating expenses also increased due to inflationary pressures, for example, on wages and salaries, in certain of our Latin American and Asian markets. Other increases arose from investment in strategic initiatives including certain business expansion projects, enhanced processes and technology capabilities, and increased investment in regulatory and compliance infrastructure primarily in the US.
- The reported cost efficiency ratio deteriorated from 57.5 per cent to 62.8 per cent and from 63.4 per cent to 66.0 per cent on an underlying basis, as a result of higher notable cost items, as described above.
- Return on equity was 8.4 per cent, down from 10.9 per cent in 2011, primarily reflecting the adverse movement in fair value of own debt attributable to movements in credit spreads, a higher tax charge and higher average shareholders' equity. Similarly, the Group's pre-tax return on average risk-weighted assets for 2012 was 1.8 per cent or 1.5 per cent on an underlying basis. Adjusting for the negative returns on US consumer finance business and legacy credit in Global Banking and Markets, the remainder of the Group achieved a pre-tax return on average risk-weighted assets of 1.9 per cent in 2012 and 2.1 per cent in 2011.
- The core tier 1 ratio increased during the year from 10.1 per cent at the end of 2011 to 12.3 per cent. This increase was driven by capital generation and a reduction in risk-weighted assets following business disposals.
- The Basel III capital rules began their staged six to 10-year implementation in some parts of the world in January 2013. Nevertheless, the FSA has set our 2013 capital target calculation on a Basel III end point basis. This effectively accelerates our implementation of Basel III by several years relative to European regulations and other

## Our Group Management Board

Our Group Management Board, chaired by the Group Chief Executive and comprising two executive Directors and 12 Group Managing Directors, is responsible for the day-to-day running of HSBC.

- |  |  |
|--|--|
| <b>1 Stuart Gulliver</b> , <i>Group Chief Executive and Chairman of Group Management Board</i> | <b>8 Stuart Levey</b> , <i>Chief Legal Officer</i>   |
| <b>2 Iain Mackay</b> , <i>Group Finance Director</i>   | <b>9 Marc Moses</b> , <i>Group Chief Risk Officer</i>  |
| <b>3 Brian Robertson</b> , <i>Chief Executive, HSBC Bank plc</i>                               | <b>10 Pam Kaur</b> , <i>Group Head of Internal Audit (with effect from 1 April 2013)</i>             |
| <b>4 Ann Almeida</b> , <i>Group Head of Human Resources and Corporate Sustainability</i>       | <b>11 Sean O'Sullivan</b> , <i>Group Chief Operating Officer</i>                                     |
| <b>5 Samir Assaf</b> , <i>Chief Executive, Global Banking and Markets</i>                      | <b>12 John Flint</b> , <i>Chief Executive, Retail Banking and Wealth Management</i>                  |
| <b>6 Alan Keir</b> , <i>Global Head of Commercial Banking</i>                                  | <b>13 Antonio Losada</b> , <i>Chief Executive, Latin America and the Caribbean</i>                   |
| <b>7 Irene Dörner</b> , <i>President and Chief Executive Officer, HSBC USA</i>                 | <b>14 Peter Wong</b> , <i>Chief Executive, The Hongkong and Shanghai Banking Corporation Limited</i> |

“Retail Banking and Wealth Management experienced revenue growth across all faster-growing regions, in particular Hong Kong and Latin America.”

## Group Chief Executive's Business Review *(continued)*

global banks. Consistent with this, we now operate to an internal capital target set on a Basel III end point basis of 9.5-10.5 per cent.

- Profit attributable to ordinary shareholders was US\$13.5 billion, of which US\$8.3 billion was declared in dividends in respect of the year. This compared with US\$2.9 billion of variable pay awarded (net of tax) to our employees for 2012.
- Dividends per ordinary share declared in respect of 2012 were US\$0.45, an increase of 10 per cent compared with 2011, with a fourth interim dividend for 2012 of US\$0.18 per ordinary share.

### Global standards

As a global organisation which trades on its international connectivity, we recognise that we have a responsibility to play a part in protecting the integrity of the financial system. In order to do this effectively, in April 2012 we committed to implementing industry-leading controls to increase our ability to combat financial crime.

The highest compliance standards are being adopted and enforced across HSBC and our Compliance function has already been strengthened considerably. More than 3,500 people are now employed globally to work on compliance and the cost of the Compliance function has approximately doubled since 2010 to more than US\$500 million. We have created and recruited externally for two new Compliance leadership roles – Global Head of Regulatory Compliance and Head of Group Financial Crime Compliance – and appointed a number of senior staff with extensive experience of handling relevant international legal and financial issues.

A review of 'Know Your Customer' files is under way across the entire Group and an enhanced global sanctions policy has been devised to ensure that we do not do business with key illicit actors anywhere, in any currency. In addition, we have moved to protect HSBC from the risks inherent in bearer shares by curtailing the ability of clients using bearer share companies to open accounts or transact with HSBC.

**"The highest compliance standards are being adopted and enforced across HSBC and our Compliance function has already been strengthened considerably."**

We have also introduced a new filter, against which all existing and prospective clients and businesses are screened. This sixth filter focuses on financial crime risk. It means that where we cannot practically or economically apply the global standards to which we are committed we will stop writing business altogether or significantly restrict our activities. This policy is consistent with our commitments to adopt global standards, to simplify our business and operations, and to de-risk our business activities.

Implementing these standards will be a critical component of our work in 2013.

### Outlook

Whilst the operating environment for financial institutions remains difficult, our core business will continue to reap the benefit of recovering economic growth in mainland China and its positive impact on other faster-growing regions. We expect the developing economies, led by mainland China, to continue to grow briskly at 5.4 per cent, while developed economies should see more gradual growth of 1.0 per cent. We forecast growth of 8.6 per cent in mainland China in 2013.

The US economy should continue its gradual recovery, with continuing quantitative easing measures supporting a recovery in the housing market, although the recovery is still not strong enough to support a sustained reduction in unemployment. We expect higher growth in Latin America in 2013, due in part to a modest recovery in Brazil. The biggest risk to the world economy remains an uncharted shock from Europe and an exacerbation of the sovereign debt crisis. We remain cautious on the outlook for Europe due to weak demand, slow growth, and political and regulatory uncertainty.

Finally, I am pleased to report that the business had a good start to the year. Our results in 2013 will include a dilution gain of US\$1.2 billion on our investment in Industrial Bank, following its issue of additional share capital to third parties on 7 January. There was also a US\$0.6 billion net gain on the completion of the sale of our shares in Ping An, which offsets the adverse fair value movement on the forward contract included within our 2012 results. On 19 February 2013 we announced the sale of our operations in Panama for US\$2.1 billion.



**Stuart Gulliver**  
Group Chief Executive

4 March 2013

# Becoming the world's leading international bank

In May 2011, HSBC set out its vision for the long-term direction of the Group, together with a clear strategy that will help us achieve it. It guides where and how we seek to compete. We constantly assess our progress against this strategy, and provide regular updates to stakeholders.

### Alignment to long-term trends

Our strategy is aligned to two long-term trends:

#### International trade and capital flows

The world economy is becoming ever more connected. Growth in world trade and cross-border capital flows continues to outstrip growth in average gross domestic product. Financial flows between countries and regions are highly concentrated. Over the next decade, we expect 35 markets to account for 90 per cent of world trade growth and a similar degree of concentration in cross-border capital flows.

#### Economic development and wealth creation

By 2050, we expect economies currently deemed 'emerging' to have increased five-fold in size, benefiting from demographics and urbanisation, and they will be larger than the developed world. By then, 19 of the 30 largest economies will be markets that are currently described as 'emerging'.

### Strategic direction

Based on these long-term trends and our competitive position, our strategy has two parts:

#### Network of businesses connecting the world

HSBC is well positioned to capture growing international financial flows. Our global reach and range of services put us in a strong position to serve corporate clients as they grow from small enterprises into large and international corporates, and personal clients as they become more affluent. Access to local retail funding and our suite of international products allow us to offer distinctive, profitable solutions to these clients. We will focus on 'South-South' trade, connecting faster-growing economies with each other.

#### Wealth management and retail with local scale

Social mobility and wealth creation in the faster-growing markets will generate demand for financial services which we will meet through our Wealth Management and Private Banking businesses. We will only invest in retail businesses in markets where we can achieve profitable scale.

### Execution

This relies on action in three areas to grow, simplify and restructure the Group.

#### 1. Growing HSBC

We continue to position HSBC for growth. We will deploy capital in our home and priority growth markets, access faster-growing markets, and cover all major trade corridors. The Group will benefit from closer co-ordination and increased referrals among HSBC's four global businesses, with the collective aim of maximising revenue opportunities.

#### 2. Simplifying HSBC

We are making HSBC easier to manage and control. Since the start of 2011, we have announced 47 transactions to dispose of non-strategic businesses, and made headway with programmes to improve organisational efficiency.

#### 3. Restructuring HSBC

We are restructuring certain businesses to adapt to a changing environment. Our Global Banking and Markets business is managing down its legacy credit exposures. We are reshaping our US operations to focus on core activities, i.e. servicing international businesses. Global Private Banking is focusing on priority markets and improving operational standards such as strengthening its compliance and risk framework.

## Strategy in Action

As China's economic power continues to grow its currency, the renminbi (RMB), is becoming increasingly important for trade settlement, savings and investment. HSBC is the leading international bank for global RMB services and, with its worldwide network of offices, the Group is well-positioned to help customers benefit from the currency's increasingly crucial role in the world economy

**Hong Kong International Airport is the world's busiest air cargo hub, handling about four million tonnes of freight in 2012, which accounted for over one-third of the total value of the Hong Kong SAR's external trade. Home to Cathay Pacific Airways, Hong Kong's flagship carrier, the airport serves more than 50 million passengers each year.**

Located at Chek Lap Kok on Lantau Island, the airport is also the main gateway to China, demonstrating the close links between Hong Kong and the Mainland. Over 100 airlines operate flights from Hong Kong to around 170 cities worldwide, including about 50 destinations on the Chinese Mainland.

As China's economic connections to the rest of the world multiply, the government is taking steps to internationalise its currency. Trade is the key driver. By 2015, the RMB is forecast to be a top three global trade currency, accounting for around US\$2 trillion of China's trade. The RMB is increasingly part of normal day-to-day business for anyone trading with or investing in China. A number of major multinational companies have raised capital in RMB; central banks in such countries as South Korea, Malaysia, Kuwait and Nigeria hold RMB in their reserves; and the demand for RMB retail bank accounts is growing in the Asia-Pacific region, including Australia, the Philippines and South Korea.

HSBC was the first bank to use the RMB for trade settlement in six continents. We launched the world's first initial public offering in RMB in 2011. In 2012, we issued the first international RMB-denominated bond outside of China and Hong Kong.

The currency's continuing rise is set to be a defining theme of the 21<sup>st</sup> century.



# Supporting the internationalisation of the renminbi

**Cover, above, right:** Hong Kong Air Cargo Terminals Limited, a leading air cargo operator and an HSBC corporate customer, operates round the clock 365 days a year, handling a sizeable proportion of the cargo that passes through Hong Kong International Airport at Chek Lap Kok. The terminal's state-of-the-art cargo handling facilities are used by around 100 international and regional airlines.



The journey of soya beans from a plantation in Brazil to a marketplace in China is typical of the commodity trade flows that drive global economic growth. HSBC provides finance to growers, traders and importers at each stage of the journey – helping to keep global trade flowing

# Financing global commodity trade flows

Young soya plants on a large-scale plantation in Mato Grosso state, Brazil.



**HSBC was founded nearly 150 years ago to finance trade between East and West. Today, we remain the world's leading trade bank, with key strengths in the faster-growing emerging markets of Asia, Latin America and the Middle East. This network gives us a particular competitive advantage in the financing of the commodity trade, which typically originates from emerging markets where raw materials and crops are grown, extracted or mined.**

Commodities in the oil and energy, metal and agricultural product sectors fuel economic growth and now comprise some 30 per cent of all trade flows. HSBC's Commodity and Structured Trade Finance teams have been set up in key hubs in Europe, the Middle East, Asia and Latin America to serve customers at every stage of the commodity trade.

Take the trade in soya beans. This versatile crop is not just a vital, protein-rich ingredient in Asian diets, but it is also widely used in processed foods and as animal feed worldwide. HSBC provides services to about 70 customers in the soya bean sector in Brazil, including large-scale

growers in Mato Grosso state at the start of the supply chain (see main photo). We check that such customers do not have unacceptable impacts on local people or the environment, particularly on deforestation in the Amazon.

Brazil is the world's second largest soya bean producer (after the US). At the other end of the supply chain, China is the world's top importer of soya beans. It consumes over 20 million tonnes, or around 70 per cent, of Brazil's soya exports each year. In China, HSBC's commercial customers account for over 50 per cent of soya bean imports.

Typically, a Brazilian grower sells the soya beans to commodity merchants based in a trading hub such as Geneva or Singapore. The trader sells on the beans, which are then shipped to China where they are refined before being sold again. At the start of the supply chain, HSBC provides pre-export loans which help growers invest in seeds, fertiliser and machinery. At the end of the supply chain, we provide assurance that payments are made on delivery. We can also identify potential commercial partners for clients, helping them to link up internationally.

**A Hong Kong market stall selling tofu, a popular Chinese food made from soya beans.**





# Investing for growth in a priority market





## Strategy in Action

One of HSBC's top project finance deals of 2012 was to provide an innovative financial package to a global infrastructure client to construct a state-of-the-art coal-fired power plant to meet Malaysia's energy needs well into the future

**Malaysia is a key emerging market for HSBC, with economic growth of more than 5 per cent in 2012 and a similar rate forecast for 2013. To ensure long-term robust economic growth, the government has set a strategy for the further development of the country's infrastructure, including power generation.**

HSBC client and Malaysia's leading independent power producer, Malakoff Corporation Bhd, is building a new, state-of-the-art 1,000-megawatt power plant at its Tanjung Bin facility in Johor state (see photos). Demonstrating our cross-border capabilities, HSBC's regional Project Finance experts from Hong Kong, Malaysia and Singapore acted as financial advisers to the US\$2.2 billion project, leading a bespoke and innovative financing package that included an Islamic bond, dual currency bank loans and an equity bridge loan. Illustrating HSBC's ability to connect multiple product areas, different teams across our Global Banking and Markets divisions specialising in project finance, capital markets, commercial financing, cash management and treasury products worked together to deliver a single, cohesive proposal to meet the project's total financing needs.

A consortium led by another HSBC client, Alstom Power, is constructing the plant – an example of HSBC's ability to connect a European customer to investment in an emerging market.

Despite its contribution to climate change, coal will remain part of the future energy mix, especially where countries have a limited number of energy options. Recognising that a balance is required between development and moving towards a low-carbon economy, in 2011 HSBC became the first bank to introduce a carbon intensity standard for transactions.

When the Malakoff plant starts operations in 2016, it will be one of the first in Malaysia to use 'ultra-supercritical' boiler technology, with a projected carbon intensity of 784 grams of carbon dioxide per kilowatt-hour, which is well within HSBC's standard of 850 for developing countries and much cleaner than the average Asian coal-fired plant. By helping our clients move towards more efficient ways of generating power, HSBC is playing an active role in the transition to a low carbon economy.

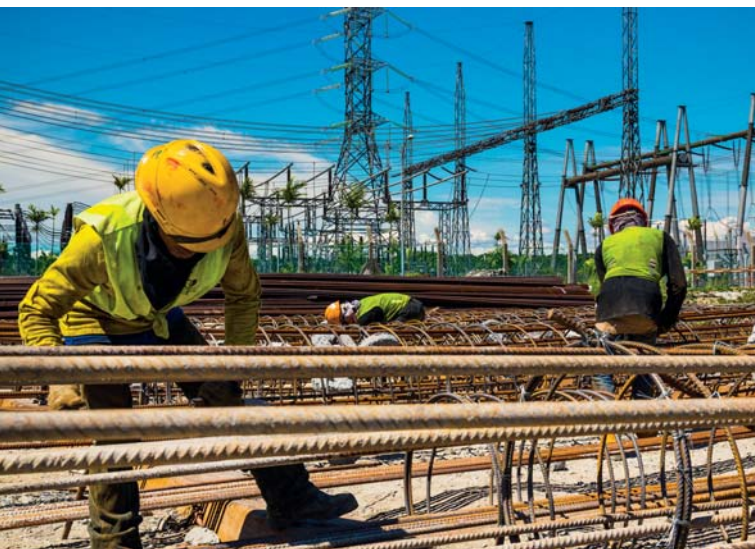
In 2012, our leading position in Asian infrastructure projects won recognition when HSBC was named the 'Best Asian project finance bank' by *Project Finance International* magazine and the Malakoff transaction won many awards, including *Asiamoney* magazine's 'Project finance deal of the year'.

**Construction is well under way at Malakoff's new coal-power plant in Johor, Malaysia, which will use the latest 'ultra-supercritical' boiler technology.**

**Main photo:** workers lift steel casing after concreting a huge bore pile for the foundation of the plant's chimney.

**Far left:** these large spun piles are being positioned for pile-driving into the ground to form the power plant's foundation.

**Left:** workers splice a reinforced steel bar cage prior to insertion into bore holes into which concrete will be poured. The bore holes are lined with steel casing to form bore piles, which are used for the plant's foundation.



## Managing our risks

As a provider of banking and financial services, we actively manage risk as a core part of our day-to-day activities. We have identified a comprehensive suite of risk factors which informs our assessment of our top and emerging risks.

### Top and emerging risks

We classify certain risks as 'top' or 'emerging'. We define a 'top risk' as being a current risk with the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may crystallise within one year. An 'emerging risk' has large uncertain outcomes, which may crystallise beyond a one-year horizon and may have a material impact on our long-term strategy.

All of our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks, which we assess on a Group-wide basis. During 2012, our senior management paid particular attention to a number of top and emerging risks which fall under three broad categories:

#### 1. Macroeconomic and geopolitical risk

- Emerging markets slowdown
- Macroeconomic risks within developed economies
- Increased geopolitical risk in certain regions

Fiscal austerity measures in mature economies designed to reduce public debt in the medium term have had the short-term effect of lowering trade and reducing international lending, with a consequent impact on emerging market growth.

The situation in the euro zone improved in 2012, though there is still some risk of one or more countries leaving the euro. We prepared and tested detailed operational contingency plans for this scenario.

We increased our monitoring of the geopolitical and economic situation in Egypt, which saw a continuing risk of political instability during its political transition.

 See the *Annual Report and Accounts 2012*, pages 131-132.

#### 2. Macro-prudential, regulatory and legal risks to our business model

- Regulatory developments affecting our business model and Group profitability
- Regulatory investigations, fines, sanctions and requirements relating to the conduct of business and financial crime negatively affecting our results and brand
- Dispute risk

Governments and regulators in numerous jurisdictions continue to develop policy which may impose new requirements, including in the areas of capital and liquidity management. We are actively engaged with them to help ensure that new requirements can be implemented effectively.

In December 2012, HSBC reached agreement with the US authorities in relation to investigations regarding past inadequate compliance with anti-money laundering and sanctions laws, and have committed to a number of remedial measures under the Deferred Prosecution Agreements. We have already taken steps, including simplifying the Group's control structure, strengthening governance with new leadership appointments, and revising policies to enforce the highest compliance standards worldwide.

 See the *Annual Report and Accounts 2012*, pages 132-134.

#### 3. Risks related to our business operation, governance and internal control systems

- Regulatory commitments and consent orders including under the Deferred Prosecution Agreements
- Challenges to achieving our strategy in a downturn
- Internet crime and fraud
- Level of change creating operational complexity and heightened operational risk
- Information security risk
- Model risk

The challenging external environment underlines the importance of our strategic focus on capital allocation and cost efficiency. As we implement HSBC's strategy, close management oversight, review programmes and robust governance arrangements help us evaluate and manage operational risk.

We continually assess the evolving threat of internet crime and fraud, and have taken steps, including the introduction of two-factor authentication, to reduce the possibility of fraud. We have invested significantly in addressing the risk of information loss through increased staff training and enhanced multi-layered controls to protect our technical infrastructure.

 See the *Annual Report and Accounts 2012*, pages 134-136.

## Ensuring our conduct matches our values

In line with our ambition to be recognised as the world's leading international bank, we aspire to lead the industry in our standards of conduct. As international markets become more interconnected and complex and, as threats to the global financial system grow, we are further strengthening the policies and practices which govern how we do business and with whom.

Like any business, we greatly value our reputation. HSBC's success over the years is due in no small part to our reputation for trustworthiness and integrity. In April 2012, as part of this effort, we committed to adopting and enforcing the highest compliance standards across HSBC. Doing so will help us to achieve three key objectives:

- strengthen our capabilities to combat the ongoing threat of financial crime;
- make consistent – and therefore simplify – how we monitor and enforce high standards at HSBC; and
- ensure that we consistently apply our values so as to serve positively the customers and societies who entrust their financial needs to HSBC.

Embedding global standards across HSBC in a consistent manner is a top priority and will shape the way we do business.

Under the supervision of HSBC's Global Standards Steering Meetings of the Group Management Board, we are already strengthening policies and processes in a number of important areas. These are outlined in the table below.

We are also reinforcing the status of compliance and standards as an important element of how we assess and reward senior executives, and rolling out communication, training and assurance programmes to ensure that our staff understand and meet their responsibilities.

A new committee of the HSBC Holdings Board, the Financial System Vulnerabilities Committee, will provide governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may become exposed and, through that exposure, expose the financial system more broadly to financial crime or system abuse.

### Global standards execution framework: priority areas

<b>1. Financial crime risk filter</b>	Under the Group's strategy set out in 2011, we analyse different markets against five financial filters to help us determine where to do business and the type of business we can do in line with our values and financial return objectives. In 2012, we added a sixth filter under which we also analyse all new and existing business to limit activity and client acquisition in jurisdictions with a high risk of financial crime.
<b>2. Tax transparency</b>	We are strengthening our policies and controls with the objective of ensuring that HSBC's services are not used by clients seeking to evade their tax obligations.
<b>3. Sanctions</b>	We have expanded our application of financial sanctions to ensure that the most demanding standards are enforced for all currencies and in all jurisdictions. Through application of these standards, we screen clients and all cross-border payments to prevent the use of HSBC's banking services for the benefit of blacklisted countries, companies and individuals.
<b>4. Information sharing</b>	We are extending the sharing of key compliance information between different parts of HSBC, to the extent permitted by law, for the purpose of managing our exposure to financial crime.
<b>5. Customer due diligence</b>	We are applying a globally consistent approach to the knowledge needed to accept or retain a customer relationship. When any customer or potential customer is considered an unacceptable reputational risk – or otherwise does not meet our standards – that determination will be applied globally.
<b>6. Affiliates' due diligence</b>	We are building a single central repository holding all required due diligence information on each of our affiliates in order to facilitate seamlessly cross-border transactions on behalf of our clients.
<b>7. Bearer shares</b>	Shares not registered to any owner, but beneficially owned by the person who has physical possession of the share certificates, carry inherent risks relating to money laundering and tax evasion. We have set out minimum, highly restrictive standards, applicable in all markets, for dealing with customers who utilise bearer shares.

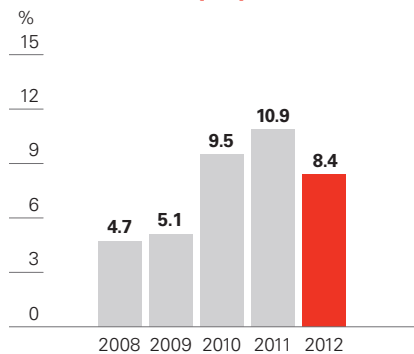
# Key Performance Indicators

The Board of Directors and the Group Management Board – our executive management committee responsible for the day-to-day running of HSBC under the Board's authority – monitor HSBC's progress against its strategic objectives. Progress is assessed by comparison with our strategy, our operating plan and our historical performance using both financial and non-financial measures.

Set out on these two pages are our high-level financial and non-financial key performance indicators.

## Strategy Restructuring HSBC: improving the way we deploy capital

### Return on average ordinary shareholders' equity

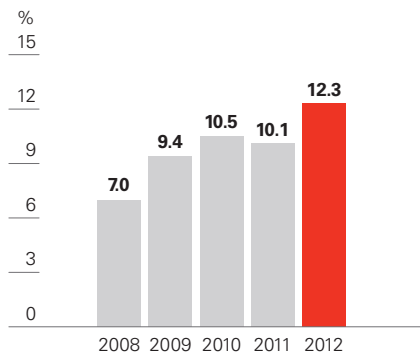


**Measure:** (percentage) profit attributable to shareholders divided by average ordinary shareholders' equity.

**Target:** to maintain a return in the medium term of between 12% and 15%.

**Outcome:** return on average ordinary shareholders' equity remained outside our target range and was 2.5 percentage points below 2011. The latter primarily reflected adverse fair value movements on own debt attributable to credit spreads, compared with favourable movements in 2011, a higher tax charge and higher average shareholders' equity.

### Core tier 1 capital ratio



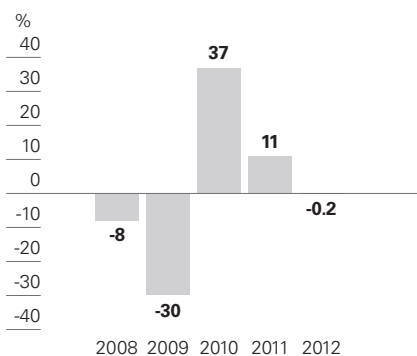
**Measure:** (percentage) ratio of core tier 1 capital comprising shareholders' equity and related non-controlling interests less regulatory deductions and adjustments to total risk-weighted assets.

**Target:** to maintain a strong capital base to support the development of the business and meet regulatory capital requirements at all times.

**Outcome:** the increase in core tier 1 capital ratio to 12.3% was driven by capital generation and a reduction in risk-weighted assets following business disposals, notably the disposal of the US Card and Retail Services business and of an associate following the agreement to sell our stake in Ping An.

## Strategy Growing HSBC: continuing to position ourselves for growth

### Risk-adjusted revenue growth

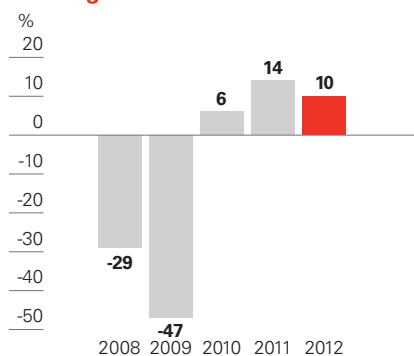


**Measure:** (percentage) increase in reported net operating income after loan impairment and other credit risk charges since last year.

**Target:** to deliver consistent growth in risk-adjusted revenues.

**Outcome:** reported risk-adjusted revenue was broadly in line with 2011. On an underlying basis, there was an increase due to revenue growth, notably in Global Banking and Markets and Commercial Banking, and lower loan impairment charges, notably in North America.

### Dividends per ordinary share growth

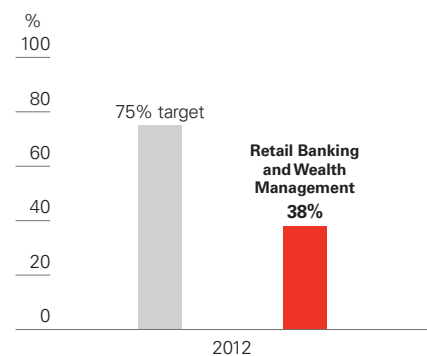


**Measure:** (percentage) increase in dividends per share since last year, based on dividends paid in respect of the year to which the dividend relates.

**Target:** to deliver sustained dividend per share growth.

**Outcome:** dividends per share increased by 10%.

### Customer recommendation

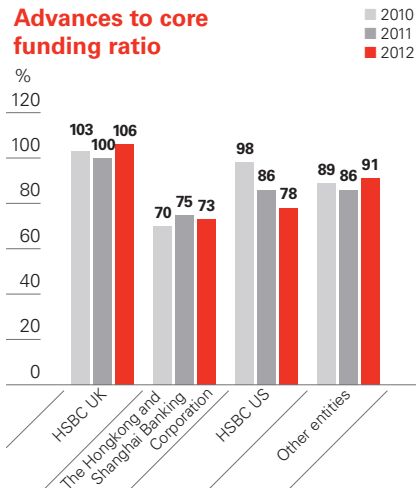


**Measure:** we measure our customer satisfaction through an independent market research survey of retail banking customers in selected countries, using a specific customer recommendation index to score performance. We benchmark our performance against key competitors in each market and set targets relative to our peer group of banks.

**Target:** the Group target is for 75% of all the markets (based on their weighted revenue) to meet their customer recommendation index targets.

## Strategy Simplifying HSBC: a lean and values-driven organisation

### Advances to core funding ratio



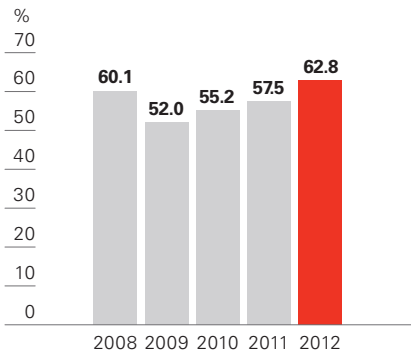
**Measure:** loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year.

**Target:** to maintain an advances to core funding ratio below limits set for each entity.

**Outcome:** The operating entities reported remained inside their advances to core funding limits of between 70% and 115% during 2012, except for one operating entity reported within the total of HSBC's other principal entities which operated with a limit of 125% during 2012. This limit has been reduced to 115% for 2013.

### Cost efficiency

(2012: underlying cost efficiency 66.0%)

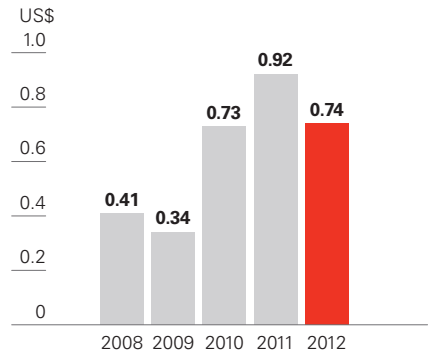


**Measure:** (percentage) total operating expenses divided by net operating income before loan impairment and other credit risk provisions.

**Target:** to be between 48%-52%, a range within which business is expected to remain to accommodate both returns to shareholders and the need for continued investment for future business growth.

**Outcome:** the ratio was outside the target range. On a reported basis, revenues decreased primarily due to adverse fair value movements on own debt attributable to credit spreads, coupled with higher costs, reflecting a charge for fines and penalties in settlement of investigations into HSBC's past inadequate compliance with anti-money laundering and sanctions laws as well as an increase in provisions for UK customer redress programmes.

### Basic earnings per ordinary share



**Measure:** (US\$) level of basic earnings generated per ordinary share.

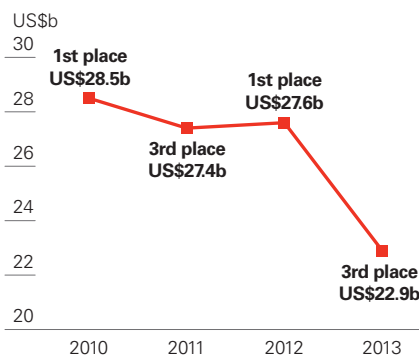
**Target:** to deliver consistent growth in basic earnings per share.

**Outcome:** Earnings per share decreased in 2012, reflecting adverse fair value movements on own debt attributable to credit spreads, compared with favourable movements in 2011, and a higher tax charge which resulted in a decrease in reported profits.

**Outcome:** Retail Banking and Wealth Management failed to make its target of 75% as a consequence of reputational issues in certain of our major developed markets that adversely affected customers' perception of the bank in the third quarter of 2012. We saw a good recovery in the fourth quarter but, taking the overall averaged annual position into account, we only met our target in 38% of our weighted revenue. 55% of the weighted revenue target was within two points (from a 100-point scale).

For Commercial Banking, we changed our measures in 2012 for customer satisfaction to reflect the strategic focus of the business. Previously, we only surveyed small business customers in a limited number of markets and measured customer recommendation. For 2012, we introduced a new measure of our performance through a 'client engagement' survey conducted for us by a third party. This provides a more complete perspective for our performance across all our Commercial Banking segments and will give us a competitive benchmark in 13 of our top markets. In 2012, therefore, we set benchmarks but not targets. We will set targets for 2013 and report results in the future.

### Brand value



**Measure:** in 2011, we moved our brand measure to the Brand Finance valuation method as reported in *The Banker* magazine. This is our second year of using this benchmark. The Brand Finance methodology gives us a more complete measure of the strength of the brand and its impact across all business lines and customer groups. It is a wholly independent measure and is publicly reported.

**Target:** a top three position in the banking peer group.

**Outcome:** The HSBC brand moved from first to third in the Brand Finance ranking and suffered a substantial reduction in value. We achieved our target of a top three position but, in consultation with the Brand Finance organisation, we have seen reputational issues cited as a major factor in our reduced performance in 2012.



## Building long-term connections

As a global financial services organisation, HSBC is an intermediary between individuals, businesses and economies. We help people to realise their ambitions, businesses to grow, and economies to thrive.

We value our connections with communities and non-governmental organisations (NGOs), with customers and suppliers, and with our own employees. The quality of these relationships is part of the foundation of our success as a business.

For us, acting sustainably means building connections for the long term. HSBC has always taken a long-term view, and part of this is the recognition that industry and trade, and the economies that support them, depend on critical and limited natural resources including fossil fuels, minerals, water, and carbon sinks such as oceans and forests. Businesses – our customers – have an inevitable impact on the communities around them.

This chapter focuses on how we work with our customers on sustainability issues and contribute to the communities in which we operate. We enable customers to manage their impact on the environment, and play a role in helping the communities in which we operate to develop. We continue to learn about the key global challenges facing society with regard to sustainable development, and to define our role in investing resources to tackle them.

### Building connections with customers Climate change and global water supply

Our strategy, and our purpose as a bank, is to connect customers to opportunities and help people to realise their ambitions. We are well positioned in key growth markets to enable this. We believe that to sustain economic growth, businesses will need to innovate, to engineer themselves to be productive with less and, at the same time, to capitalise on emerging business opportunities.

By keeping a close watch on the technological and regulatory markets as they develop, through our network of relationship managers and under the guidance of our Climate Business Council, we can help customers to benefit from 'climate business' opportunities. That means seeking out new commercial opportunities which also support the transition to a low carbon economy.

In 2012, we structured finance transactions for 267 low-emission buses in Santiago, Chile, and 300 in Manaus, the capital of the Brazilian state of Amazonas. Not only do these vehicles reduce the environmental impact of conventional buses and cars, they are also cheap and fast, giving people better and safer access to work, services and leisure across these vibrant and densely populated cities.

We build relationships for the long term – enabling businesses to seize the opportunities of the low carbon economy, and supporting environmental and educational programmes in communities around the world.

### Distribution of economic benefits 2012

US\$b	2010	2011	2012
Net cash tax outflow <sup>1</sup>	5.8	8.0	9.3
Distributions to shareholders and non-controlling interests	7.1	8.3	8.7
Employee compensation and benefits	19.8	21.2	20.5
General administrative expenses including premises and procurement	15.2	17.5	20.0

<sup>1</sup> Includes cash outflows of corporation tax, employer payroll tax, irrecoverable value-added tax and other taxes.

### In 2012, our Climate Change team in HSBC Global Research was ranked number one for the third year running...

In 2012, HSBC took a leading role in financing two of the year's top asset finance deals in the renewables sector. The first was the largest offshore wind project financing in Europe: the US\$1.6 billion Lincs Wind Farm is being built off the coast of England. The second was one of the largest project financings in Latin America to date, for a wind farm on the coast of Oaxaca, Mexico. We also provided debt management for Infrared Capital, supporting the roll-out of solar panels for 7,000 rooftops in the UK. Any deals must meet our Sustainability lending criteria.

We are committed to acting as both a thought leader and financial partner in this area. In 2012, our Climate Change team in HSBC Global Research was ranked number one for the third year running by Thomson Reuters EXTEL. Nick Robins, Head of Climate Change Research, was also voted the number one climate change analyst for the second consecutive year.

In 2012, a particular focus of our climate change research had been on water scarcity and infrastructure. In December, we held a Global Water Conference which brought together politicians, investors, NGOs, employees, companies and market commentators to discuss investment opportunities in industrial water globally. We have also supported water-related projects as part of our climate business work. For example, in 2012, HSBC acted as joint lead manager in a US\$150 million bond offering for Sound Global, an integrated water and waste-water treatment solutions provider in China.

### Building connections with communities HSBC Water Programme launched

Water is essential to lives and livelihoods and is a fundamental driver of all socio-economic growth but,

as a resource, it is under strain from population growth and climate change. A quarter of the world's population live in ecosystems that are under threat from water scarcity; 2.5 billion people live without access to basic sanitation; and, by 2050, 90 per cent of population growth is expected to occur in regions where water is scarce and where there is currently no sustainable access to water. Research by HSBC published in 2012 shows that, in the G20, India is the most vulnerable country to water stress, with pressures on supply seen in the country's major river basins.

In 2012, we launched a new flagship environmental partnership, the HSBC Water Programme. This is a five-year, US\$100 million programme in partnership with three NGOs that rank among the world's most respected environmental and development organisations: Earthwatch, WaterAid and WWF. Together, we will deliver a powerful combination of water provision, protection and education, resulting in the most ground-breaking water programme ever undertaken by a financial organisation. Work has started to achieve the programme's five-year goals. By the end of 2017, with WaterAid we will have provided cleaner water to 1.1 million people and sanitation to 1.9 million people across Bangladesh, India, Nepal, Pakistan, Ghana and Nigeria. This will help to reduce child morbidity (incidence of a disease) and mortality and will also cut healthcare costs to communities in general. With WWF, we will have helped 1,500 small and medium-sized enterprises to tackle water risks in five key river basins. With Earthwatch, we will have established freshwater research projects in over 20 cities worldwide. We will have engaged 7,500 HSBC employees in water research and educated a further 100,000 people in monitoring freshwater resources.

#### Helping young people realise their ambitions

In 2012, HSBC pledged an additional US\$15 million for Future First, our flagship global education programme which aims to tackle child poverty through education projects. The additional investment will support more than 50 projects in 26 countries, taking HSBC's total commitment to Future First to US\$40 million over 10 years, from 2006 to 2016. Since Future First was started, it has provided some of the world's most marginalised and impoverished young people with access to education and life skills as well as a brighter, better future. In partnership with SOS Children's Villages and other local not-for-profit organisations, the extra support will reach 250,000 young people, taking the total number of young people supported by Future First to 750,000 since the programme began.

**In 2012, HSBC pledged an additional US\$15 million for Future First, our flagship global education programme, which aims to tackle child poverty through education projects.**

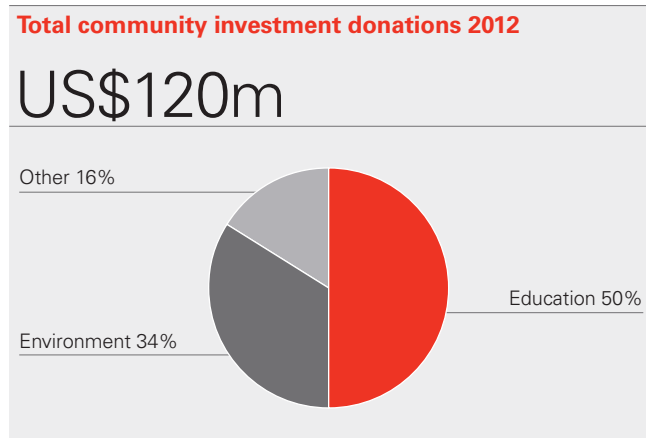
This year, the work extends to Japan and Malta for the first time and the scope of the programme has been widened beyond impoverished and marginalised young people – children who may live on the street, in care or without the support of a caring adult – to all children at risk of not getting access to education or employment opportunities. Projects include introducing a social worker service to western China's rural 'left behind' children; establishing a programme of education and development for street children in China's Guangdong Province; providing skills and employment opportunities for disadvantaged urban youth in Gujarat, India; and supporting skills development for young people in São Paulo, Brazil.

In the UK, we announced a new partnership with The Prince's Trust Fairbridge Programme, which helps disadvantaged young people, who have dropped out of formal education, to reach their potential. HSBC is investing £5 million over five years to help 3,000 13 to 17 year-olds who have been excluded, or are in danger of being excluded, from school. The goal of the programme is for at least 85 per cent of the participants to take a significant positive step in their lives as a result of this support, such as going back to school, undergoing training or gaining employment.

In Hong Kong, the JA Company Programme aims to foster students' leadership skills by providing opportunities to operate a business. The eight-month programme gives students the chance to set up and run their own companies under the guidance of volunteer business advisers from HSBC. As well as gaining new skills, the students learn about the business world and improve their future career prospects. The programme attracts more than 70 schools every year and, since 2003, more than 15,000 students have been involved. HSBC has played a significant role in providing over 600 volunteers.

We believe HSBC plays a valuable role in society and, through our connections with customers and communities, we are continually developing our approach.

*If you would like to learn more about these projects and about sustainability at HSBC, please visit our website at [www.hsbc.com/citizenship/sustainability](http://www.hsbc.com/citizenship/sustainability). Our Sustainability Report 2012 will be published at the end of May and will also be available on the website.*



# Letter from the Group Chairman

### Dear Shareholder

At HSBC, we are committed to the highest standards of corporate governance. This is more important than ever in light of developments and changes in regulatory policy for the financial services sector, society's view of the role of banks and the need to maintain investor confidence. We believe that a strong and transparent corporate governance framework is directly linked to the long-term success of the Group.

A values-led culture, high behavioural standards and robust procedures are fundamental to a strong corporate governance framework. As we reported to you last year, a renewed emphasis has been placed on values at HSBC, ensuring our employees are empowered to do the right thing and to act with courageous integrity. The role played by HSBC Values in daily operating practice is fundamental to our culture and HSBC Values continue to be embedded in how we conduct our business.

In my statement to shareholders on pages 6 to 10, I outline the significant challenges faced by the Company, both during the year and in the future, and the way we endeavoured to address these challenges. We now have the structure to help us reduce complexity and to run the Group more effectively on a global basis. We are formulating and implementing global standards to ensure that our conduct matches our values.

**"A values-led culture, high behavioural standards and robust procedures are fundamental to a strong corporate governance framework."**

In the 'Summary Directors' Report' on pages 34 to 41, we outline the way in which the Group's corporate governance framework operates, including the role and responsibilities of the Board and each of its Committees. We continue to review and develop this framework in light of changes in the Group's businesses and the external environment, taking into account the views of external parties where appropriate. As in previous years, we have benefitted from input from the views of a third-party facilitator whose report was used by the Board in its annual review of its own effectiveness.

Ensuring that there is an appropriate balance of skills, knowledge and experience on the Board is an important aspect of corporate governance. The expertise and experience of our Board was augmented in 2012 with the appointments of Joachim Faber, former Chief Executive Officer of Allianz Global Investors AG, and John Lipsky,

former First Deputy Managing Director of the International Monetary Fund. It was augmented further in 2013 with the appointments of Renato Fassbind, former Chief Financial Officer of Credit Suisse Group SA and Jim Comey, former United States Deputy Attorney General.

**"The Financial System Vulnerabilities Committee will use the knowledge and experience of its members to place the Group in a position of leadership in this area, and will provide the Board with a forward-looking perspective on financial crime risk."**

We have also taken steps to strengthen non-executive oversight of matters relating to anti-money laundering, sanctions, terrorist financing and proliferation financing. A new Board committee, the Financial System Vulnerabilities Committee, will provide governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may become exposed, and through that exposure, expose the financial system more broadly to financial crime or system abuse. The Financial System Vulnerabilities Committee will use the knowledge and experience of its members to place the Group in a position of leadership in this area, and will provide the Board with a forward-looking perspective on financial crime risk.

The executive committee structure has been enhanced, with the establishment of a regular separate meeting of the Group Management Board to focus on developing and implementing global standards reflecting best practices which must be adopted and adhered to consistently throughout the Group.

During the year, the Board adopted a Board diversity policy, which is consistent with the Group's strategic focus on ethnicity, age and gender diversity for the employee base. At the 2011 AGM, I stated the Board's intention to exceed the aspirational target set by Lord Davies in his report on *Women on Boards* of 25 per cent female representation on the boards of FTSE 100 companies by 2015. Our policy restates this intention.

We recognise that our strategy to be the world's leading international bank relies on a foundation of good corporate governance, and we endeavour to be at the forefront of this field in the coming years.



**Douglas Flint**  
Group Chairman

4 March 2013



# Looking after your interests

## Board of Directors

### Douglas Flint, CBE, 57

#### Group Chairman

**Skills and experience:** extensive governance experience gained through membership of the Boards of HSBC and BP p.l.c.; considerable knowledge of finance and risk management in banking, multinational financial reporting, treasury and securities trading operations; honoured with a CBE in recognition of his services to the finance industry; member of the Institute of Chartered Accountants of Scotland and the Association of Corporate Treasurers. Fellow of The Chartered Institute of Management Accountants. Joined HSBC in 1995.

**Appointed to the Board:** 1995

**Current appointments include:** director of The Hong Kong Association; and Chairman of the Institute of International Finance since 6 June 2012. A member of the Mayor of Beijing's International Business Leaders' Advisory Council as well as the Mayor of Shanghai's International Business Leaders' Advisory Council; and a member of the International Advisory Board of the China Europe International Business School, Shanghai.

**Former appointments include:** Group Finance Director and Chief Financial Officer; and Executive Director, Risk and Regulation. Co-Chairman of the Counterparty Risk Management Policy Group III; Chairman of the Financial Reporting Council's review of the Turnbull Guidance on Internal Control; member of the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board; served on the Large Business Forum on Tax and Competitiveness and the Consultative Committee of the Large Business Advisory Board of HM Revenue and Customs; partner in KPMG; and non-executive director and Chairman of the Audit Committee of BP p.l.c.

### Stuart Gulliver, 53

#### Group Chief Executive

**Skills and experience:** a career banker with over 30 years' international experience with HSBC; has held a number of key roles in the Group's operations worldwide, including in London, Hong Kong, Tokyo, Kuala Lumpur and the United Arab Emirates; played a leading role in developing and expanding Global Banking and Markets, the wholesale banking division of the Group with operations in over 65 countries and territories. Joined HSBC in 1980.

**Appointed to the Board:** 2008

**Current appointments include:** Chairman of The Hongkong and Shanghai Banking Corporation Limited; and Chairman of the Group Management Board. A member of the Monetary Authority of Singapore International Advisory Panel since 1 June 2012 and a member of the International Advisory Council of the China Banking Regulatory Commission since 10 July 2012.

**Former appointments include:** Chairman, Europe, Middle East and Global Businesses and Chairman of HSBC Bank plc, HSBC Bank Middle East Limited and HSBC Private Banking Holdings (Suisse) SA. Head of Global Banking and Markets; Co Head of Global Banking and Markets; Head of Global Markets; Head of Treasury and Capital Markets in Asia-Pacific; Deputy Chairman of HSBC Trinkaus & Burkhardt AG and a member of its Supervisory Board. Ceased to be Chairman of HSBC France on 22 November 2012.

### Safra Catz<sup>†</sup>, 51

**Skills and experience:** a background in international business leadership, having helped transform Oracle into the largest producer of business management software and the world's leading supplier of software for information management.

**Appointed to the Board:** 2008

**Current appointments include:** President and Chief Financial Officer of Oracle Corporation. Joined Oracle in 1999 and appointed to the board of directors in 2001.

**Former appointments include:** Managing Director of Donaldson, Lufkin & Jenrette.

### Laura Cha<sup>†</sup>, GBS, 63

*Member of the Corporate Sustainability Committee and, since 1 January 2013, Chairman.*

**Skills and experience:** extensive regulatory and policy making experience in the finance and securities sector in Hong Kong and mainland China; formerly Vice Chairman of the China Securities Regulatory Commission, being the first person outside mainland China to join the Central Government of the People's Republic of China at vice-ministerial rank; awarded Gold and Silver Bauhinia Stars by the Hong Kong Government for public service; formerly Deputy Chairman of the Securities and Futures Commission in Hong Kong; and has worked in the US and Asia.

**Appointed to the Board:** 2011

**Current appointments include:** non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited; non-official member of the Executive Council of Hong Kong SAR; a Hong Kong Deputy to the 12th National People's Congress of China; non-executive director of China Telecom Corporation Limited; member of the Advisory Board of the Yale School of Management; Senior International Advisor for Foundation Asset Management Sweden AB; member of the State Bar of California; and Chairman of the Financial Services Development Council of Hong Kong SAR since 17 January 2013. Appointed a non-executive director of Unilever PLC with effect from 14 May 2013.

**Former appointments include:** non-executive director of Bank of Communications Co., Ltd., Baoshan Iron and Steel Co. Limited; Johnson Electric Holdings Limited; and Chairman of the University Grants Committee in Hong Kong. Ceased to be a director of Hong Kong Exchanges and Clearing Limited on 24 April 2012; Tata Consultancy Services Limited on 29 June 2012; Chairman of the ICAC Advisory Committee on Corruption on 31 December 2012; and Chairman of the Task Force on the Financial Services Development Council of Hong Kong SAR on 17 January 2013.

### Marvin Cheung<sup>†</sup>, GBS, OBE, 65

*Member of the Group Audit Committee.*

**Skills and experience:** a background in international business and financial accounting, particularly in Greater China and the wider Asian economy; retired from KPMG Hong Kong in 2003 after more than 30 years; awarded the Gold Bauhinia Star by the Hong Kong Government. Fellow of the Institute of Chartered Accountants in England and Wales.

**Appointed to the Board:** 2009

**Current appointments include:** non-executive director of Hang Seng Bank Limited and HKR International Limited; non-executive Chairman of the Airport Authority Hong Kong and the Council of the Hong Kong University of Science and Technology; director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Hong Kong International Film Festival Society Ltd; and a member of the Working Group on Transportation under the Economic Development Commission of the Hong Kong SAR Government since 17 January 2013.

**Former appointments include:** non-executive director of Sun Hung Kai Properties Limited and Hong Kong Exchanges and Clearing Limited; Chairman and Chief Executive Officer of KPMG Hong Kong; and council member of the Open University of Hong Kong. Ceased to be a non-official member of the Executive Council of the Hong Kong SAR on 1 July 2012.

## Your Board: Looking after your interests (*continued*)

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### Jim Comey<sup>†</sup>, 52

*Member of the Financial System Vulnerabilities Committee on 4 March 2013.*

**Skills and experience:** extensive experience in both the public and private sectors in the US federal and state justice systems and as General Counsel to leading international businesses. Former US Deputy Attorney General responsible for supervising operations of the US Department of Justice. As US Attorney for the Southern District of New York, oversaw the prosecution of corporate executives on fraud and securities-related charges and international drug cartels.

**Appointed to the Board:** 4 March 2013

**Current appointments include:** Columbia University Law School, Senior Research Scholar and Hertog Fellow on National Security Law.

**Former appointments include:** General Counsel of Bridgewater Associates, LP. Senior Vice President and General Counsel of Lockheed Martin Corporation; US Deputy Attorney General; US Attorney for the Southern District of New York; and Assistant US Attorney for the Eastern District of Virginia.

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### John Coombe<sup>†</sup>, 67

*Chairman of the Group Audit Committee and member of the Group Risk Committee and Group Remuneration Committee.*

**Skills and experience:** a background in international business, financial accounting and the pharmaceutical industry. Formerly Chief Financial Officer of GlaxoSmithKline plc with responsibility for the group's financial operations globally. Fellow of the Institute of Chartered Accountants in England and Wales.

**Appointed to the Board:** 2005

**Current appointments include:** non-executive Chairman of Hogg Robinson Group plc and non-executive Chairman of Home Retail Group plc since 4 July 2012.

**Former appointments include:** executive director and Chief Financial Officer of GlaxoSmithKline plc; non-executive director of GUS plc; member of the Supervisory Board of Siemens AG; Chairman of The Hundred Group of Finance Directors; and member of the Accounting Standards Board. Ceased to be a council member of The Royal Academy of Arts on 18 September 2012.

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### Joachim Faber<sup>†</sup>, 62

*Member of the Group Risk Committee since 1 March 2012.*

**Skills and experience:** a background in banking and asset management with significant international experience, having worked in Germany, Tokyo, New York and London. Former Chief Executive Officer of Allianz Global Investors AG and member of the management board of Allianz SE; 14 years' experience with Citigroup Inc. holding positions in Trading and Project Finance and as Head of Capital Markets for Europe, North America and Japan. Has a doctorate from the University of Administrative Sciences in Speyer.

**Appointed to the Board:** 1 March 2012

**Current appointments include:** Chairman of the supervisory board of Deutsche Börse AG; Chairman of the Shareholder Committee of Joh A. Benckiser SARL from 1 January 2012; independent director of Coty Inc.; director of Allianz France S.A., Allianz Investment Management GmbH; and Allianz Climate Solutions GmbH; and member of the advisory boards of the Siemens Group Pension Board, the European School for Management and Technology and the German Council for Sustainable Development.

**Former appointments include:** Chairman of Allianz Global Investors Kapitalanlagegesellschaft and Allianz Global Investors Deutschland GmbH; Chairman of the board of Allianz Global Investors SGR; and member of the board of Allianz SpA and of the supervisory board of Bayerische Boerse AG.

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### Rona Fairhead<sup>†</sup>, CBE, 51

*Chairman of the Group Risk Committee and the Financial System Vulnerabilities Committee, and member of the Group Audit Committee and Nomination Committee.*

**Skills and experience:** a background in international industry, publishing, finance and general management. Formerly Finance Director of Pearson plc with responsibility for overseeing the day-to-day running of the finance function and directly responsible for global financial reporting and control, tax and treasury. Has a Master's in Business Administration from the Harvard Business School.

**Appointed to the Board:** 2004

**Current appointments include:** Chairman and director of Financial Times Group Limited; director of Pearson plc and non-executive director of The Economist Newspaper Limited. Will retire from these appointments on 27 April 2013. Non-executive member of the board of the UK Government's Cabinet Office.

**Former appointments include:** Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc; Finance Director of Pearson plc; and Chairman and director of Interactive Data Corporation.

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### Renato Fassbind<sup>†</sup>, 57

*Member of the Group Audit Committee and the Group Remuneration Committee since 1 March 2013.*

**Skills and experience:** a background in financial accounting and international business. Formerly Chief Financial Officer of Credit Suisse Group SA and ABB Group. Has a Master's in Business Administration and a PhD in Economics from the University of Zurich.

**Appointed to the Board:** 1 January 2013

**Current appointments include:** Vice Chairman of the Supervisory Board and member of the audit and compensation committees of Swiss Reinsurance Company; member of the supervisory board and audit committee of Kühne + Nagel International AG; independent director of Oanda Corporation; and member of the supervisory board of the Swiss Federal Audit Oversight Authority.

**Former appointments include:** Chief Financial Officer of Credit Suisse Group AG; Senior Advisor to the Chief Executive, Credit Suisse Group AG; Chief Executive Officer of Diethelm Keller Group; Chief Financial Officer of ABB Group; Chairman of ABB (Switzerland) AG and DKSH AG; and a member of the supervisory board of Winterthur Insurance Company.

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### James Hughes-Hallett<sup>†</sup>, CMG, SBS, 63

*Member of the Nomination Committee and, until 31 July 2012, the Group Risk Committee. Member of the Corporate Sustainability Committee since 1 January 2013.*

**Skills and experience:** a background in financial accounting and experience of management of a broad range of international businesses, including aviation, insurance, property, shipping, manufacturing and trading in the Far East, UK, US and Australia. Awarded the Silver Bauhinia Star by the Hong Kong Government. Fellow of the Institute of Chartered Accountants in England and Wales.

**Appointed to the Board:** 2005

**Current appointments include:** Chairman of John Swire & Sons Limited; non-executive director of Cathay Pacific Airways Limited and Swire Pacific Limited; a trustee of the Esmée Fairbairn Foundation; member of The Hong Kong Association; and Chairman of the Governing Board of the Courtauld Institute of Art.

**Former appointments include:** non-executive director of The Hongkong and Shanghai Banking Corporation Limited and a trustee of the Dulwich Picture Gallery until 31 December 2012.

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### Sam Laidlaw<sup>†</sup>, 57

*Member of the Group Remuneration Committee.*

**Skills and experience:** significant international experience, particularly in the energy sector, having had responsibility for businesses in four continents. Qualified Solicitor and Master's in Business Administration from INSEAD.

**Appointed to the Board:** 2008

**Current appointments include:** Chief Executive Officer of Centrica plc; and Lead Non-executive Board Member of the UK Department for Transport.

## Your Board: Looking after your interests *(continued)*

**Former appointments include:** Executive Vice President of Chevron Corporation; non-executive director of Hanson PLC; Chief Executive Officer of Enterprise Oil plc; and President and Chief Operating Officer of Amerada Hess Corporation. Ceased to be a member of the UK Prime Minister's Business Advisory Group on 31 December 2012.

### **John Lipsky<sup>†</sup>, 66**

*Member of the Group Risk Committee since 1 March 2012 and Nomination Committee since 24 May 2012.*

**Skills and experience:** international experience having worked in Chile, New York, Washington and London and interacted with financial institutions, central banks and governments in many countries. Served at the International Monetary Fund as First Deputy Managing Director, Acting Managing Director and as Special Advisor. Has a PhD from Stanford University.

**Appointed to the Board:** 1 March 2012

**Current appointments include:** Distinguished Visiting Scholar, International Economics Program at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University. Co-chairman of the Aspen Institute Program on the World Economy; director of the National Bureau of Economic Research; and member of the advisory board of the Stanford Institute for Economic Policy Research and the Council on Foreign Relations. A director of the Center for Global Development since 1 May 2012; and Global Policy Advisor for Anderson Global Macro, LLC since 4 February 2013.

**Former appointments include:** Vice Chairman J P Morgan Investment Bank; director of the American Council on Germany and the Japan Society; and a trustee of the Economic Club of New York.

### **Rachel Lomax<sup>†</sup>, 67**

*Member of the Group Audit Committee and Group Risk Committee.*

**Skills and experience:** experience in both the public and private sectors and a deep knowledge of the operation of the UK government and financial system.

**Appointed to the Board:** 2008

**Current appointments include:** Chairman of the International Regulatory Strategy Group and a director of TheCityUK since 1 January 2013; non executive director of The Scottish American Investment Company PLC, Reinsurance Group of America Inc., Arcus European Infrastructure Fund GP LLP and Heathrow Airport Holdings Limited (formerly BAA Limited); member of the Council of Imperial College, London; and President of the Institute of Fiscal Studies.

**Former appointments include:** Deputy Governor, Monetary Stability, at the Bank of England and member of the Monetary Policy Committee; Permanent Secretary at the UK Government Departments for Transport and Work and Pensions and the Welsh Office; and Vice President and Chief of Staff to the President of the World Bank.

### **Iain Mackay, 51**

#### **Group Finance Director**

**Skills and experience:** extensive financial and international experience, having worked in London, Paris, US and Asia. Member of the Institute of Chartered Accountants of Scotland. Joined HSBC in 2007.

**Appointed to the Board:** 2010

**Current appointments include:** member of the Group Management Board.

**Former appointments include:** director of Hang Seng Bank Limited; Chief Financial Officer, Asia-Pacific; and Chief Financial Officer, HSBC North America Holdings Inc; Vice President and Chief Financial Officer of GE Consumer Finance and Vice President and Chief Financial Officer of GE Healthcare – Global Diagnostic Imaging.

### **Sir Simon Robertson<sup>†</sup>, 72**

#### **Deputy Chairman and senior independent non-executive Director**

*Chairman of the Nomination Committee and member of the Financial System Vulnerabilities Committee.*

**Skills and experience:** a background in international corporate advisory with a wealth of experience in mergers and acquisitions, merchant banking, investment banking and financial markets; honoured with a knighthood in recognition of his services to business; extensive international experience having worked in France, Germany, the UK and the US.

**Appointed to the Board:** 2006

**Current appointments include:** non-executive Chairman of Rolls-Royce Holdings plc until 2 May 2013. The founding member of Robertson Robey Associates LLP, formerly Simon Robertson Associates LLP; non executive director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited; and, since 8 May 2012, Troy Asset Management; partner of NewShore Partners LLP; and trustee of the Eden Project Trust and the Royal Opera House Endowment Fund.

**Former appointments include:** Managing Director of Goldman Sachs International and Chairman of Dresdner Kleinwort Benson. Ceased to be a non-executive director of Royal Opera House, Covent Garden Limited on 31 July 2012.

### **John Thornton<sup>†</sup>, 59**

*Chairman of the Group Remuneration Committee.*

**Skills and experience:** experience that bridges developed and developing economies and the public and private sectors. A deep knowledge of financial services and education systems, particularly in Asia. During his 23-year career with Goldman Sachs, he played a key role in the firm's global development and was Chairman of Goldman Sachs Asia.

**Appointed to the Board:** 2008

**Current appointments include:** non-executive Chairman and director of HSBC North America Holdings Inc.; Director and Co-Chairman of Barrick Gold Corporation since 15 February 2012 and 5 June 2012 respectively; professor and director of the Global Leadership Program at the Tsinghua University School of Economics and Management; Chairman of the Brookings Institution Board of Trustees; non-executive director of Ford Motor Company and China Unicom (Hong Kong) Limited; director of National Committee on United States-China Relations; trustee of China Institute and the China Foreign Affairs University; and member of the Council on Foreign Relations and the China Securities Regulatory Commission International Advisory Committee.

**Former appointments include:** non-executive director of Industrial and Commercial Bank of China Limited and Intel Corporation, Inc.; trustee of Asia Society; and President of the Goldman Sachs Group, Inc. Ceased to be a non-executive director of News Corporation, Inc. on 30 November 2012.

<sup>†</sup> Independent non-executive Director.

## Secretary

### **Ralph Barber, 62**

#### **Group Company Secretary and Head of Corporate Governance**

Joined HSBC in 1980. Group Company Secretary since 1986 and Company Secretary of HSBC Holdings plc since 1990. Appointed a Group General Manager in 2006. Chairman of the Disclosure Committee. A member of the Listing Authority Advisory Committee of the Financial Services Authority and of the Primary Markets Group of the London Stock Exchange. Fellow of the Institute of Chartered Secretaries and Administrators. Former HSBC appointments include: Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited and Company Secretary of HSBC Bank plc.

## Adviser to the Board

### **David Shaw, 66**

Adviser to the Board since 1998. Director of HSBC Bank Bermuda Limited. Ceased to be a director of HSBC Private Banking Holdings (Suisse) SA and HSBC Private Bank (Suisse) SA on 19 September 2012. An independent non-executive director of Kowloon Development Company Limited and Shui On Land Limited. A solicitor and formerly a partner in Norton Rose.

# Summary Directors' Report

## Results for 2012

HSBC reported profit before tax of US\$20,649 million. Profit attributable to shareholders of HSBC Holdings was US\$14,027 million, a 8.4 per cent return on average ordinary shareholders' equity.

## Principal activities and business review

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$194 billion at 31 December 2012. We are headquartered in London.

Our products and services are delivered to clients through four global businesses: Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), Global Banking and Markets ('GB&M') and Global Private Banking ('GPB').

We operate through long-established businesses and have an international network of 6,600 offices in 81 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa ('MENA'), North America and Latin America.

Taken together, our five largest customers do not account for more than 1% of our income. We have contractual and other arrangements with numerous third parties in support of our business activities. None of the arrangements is individually considered to be essential to the business of the Group.

Continuing the Group-wide review of our businesses, 26 disposals or closures of non-strategic and non-core investments were announced or completed in 2012, and a further four in 2013, taking the total to 47 since 2011. The most significant of these transactions, which were completed in 2012, were the sale of the US Card and Retail Services business and the upstate New York branches for a total gain of US\$4.0 billion. In December 2012, we announced an agreement to sell our entire shareholding in Ping An Insurance (Group) Company of China, Limited ('Ping An'), the sale of which was completed on 6 February 2013, generating a gain of US\$3.0 billion. For further information on all disposals, see page 27 of the *Annual Report and Accounts 2012*.

In 2012, we merged our operations in Oman with those of the Oman International Bank S.A.O.G. and acquired the onshore retail and commercial banking businesses of Lloyds Banking Group in the United Arab Emirates. For further details, see page 470 of the *Annual Report and Accounts 2012*.

## Future developments

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 6 to 17 and 24 to 27, and form part of this Summary Financial Statement.

## Corporate Governance Report

The information set out on pages 31 to 54 and information incorporated by reference is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 301 to 370 of the *Annual Report and Accounts 2012*. A copy of the *Annual Report and Accounts 2012* is available on our website: [www.hsbc.com/financialresults](http://www.hsbc.com/financialresults).

## Board of Directors

The purpose of HSBC's management structure, headed by the Board of Directors of HSBC Holdings (the 'Board') and led by the Group Chairman, is to promote the long-term success of the Company and deliver sustainable value to our shareholders. The Board sets the strategy and risk appetite for the Group and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set. Implementation of the strategy set by the Board is delegated to the Group Management Board ('GMB') which is led by the Group Chief Executive.

The Board is responsible for managing the business of HSBC Holdings and, in doing so, may exercise its powers, subject to any relevant laws and regulations and to the Articles of Association. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property or assets (present or future) of HSBC Holdings and may also exercise any of the powers conferred on it by the Companies Act 2006 and/or by shareholders. The Board is able to delegate and confer on any Director holding executive office any of its powers, authorities and discretions (including the power to sub-delegate) for such time and on such terms as it thinks fit. In addition, the Board may establish any local or divisional boards or agencies for managing the business of HSBC Holdings in any specified locality and delegate and confer on any local or divisional board, manager or agent so appointed any of its powers, authorities and discretions (including the power to sub-delegate) for such time and on such terms as it thinks fit. The Board may also, by power of attorney or otherwise, appoint any person or persons to be the agent of HSBC Holdings and may delegate to any such person or persons any of its powers, authorities and discretions (including the power to sub-delegate) for such time and on such terms as it thinks fit.

The Board delegates the management and day-to-day running of HSBC to the GMB but retains to itself approval of certain matters including operating plans, risk appetite and performance targets, procedures for monitoring and controlling operations, the authority or the delegation of authority to approve credit, market risk limits, acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, specified senior appointments and any substantial change in balance sheet management policy.

During 2012, the Board adopted terms of reference which are available at [www.hsbc.com/1/2/about/board-of-directors](http://www.hsbc.com/1/2/about/board-of-directors). The Board will review its terms of reference annually.

The Directors who served during the year were S A Catz, L M L Cha, M K T Cheung, J D Coombe, J Faber (appointed 1 March 2012), R A Fairhead, D J Flint, A A Flockhart (retired 31 July 2012), S T Gulliver, J W J Hughes-Hallett, W S H Laidlaw, J P Lipsky (appointed 1 March 2012), J R Lomax, I J Mackay, G Morgan (retired 25 May 2012), N R N Murthy (retired 31 December 2012), Sir Simon Robertson, J L Thornton and Sir Brian Williamson (retired 25 May 2012).

Brief biographical particulars of all Directors are given on pages 31 to 33.

## Board meetings

Eight Board meetings and a one-day strategy meeting were held in 2012. At least one Board meeting each year is held in a key strategic location outside the UK. During 2012, Board meetings were held in Hong Kong and Washington, DC.

The table on page 35 shows each Director's attendance at meetings of the Board held while he or she was a Director during 2012. One meeting of the Board was held at short notice in 2012.

## Summary Directors' Report (continued)

Twelve meetings of committees of the Board appointed to discharge specific business were held during 2012. These meetings are not shown in the table below.

*Attendance record*

	Meetings attended	Meetings eligible to attend as a Director
S A Catz	8	8
L M L Cha	8	8
M K T Cheung	8	8
J D Coombe	8	8
J Faber <sup>1,2</sup>	6	6
R A Fairhead <sup>3</sup>	6	8
D J Flint	8	8
A A Flockhart <sup>4</sup>	4	5
ST Gulliver	8	8
J W J Hughes-Hallett	7	8
W S H Laidlaw	8	8
J P Lipsky <sup>1</sup>	6	6
J R Lomax	8	8
I J Mackay	8	8
G Morgan <sup>5</sup>	4	4
N R N Murthy <sup>6</sup>	7	8
Sir Simon Robertson	8	8
J L Thornton	8	8
Sir Brian Williamson <sup>5</sup>	4	4
<b>Meetings held in 2012</b>	<b>8</b>	

1 Appointed a Director on 1 March 2012.

2 Also attended one meeting by invitation before becoming a Director.

3 Took a temporary leave of absence due to illness.

4 Retired as a Director on 31 July 2012.

5 Retired as a Director on 25 May 2012.

6 Retired as a Director on 31 December 2012.

**Group Chairman and Group Chief Executive**

The roles of Group Chairman and Group Chief Executive are separate and held by experienced full-time Directors. There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for running HSBC's business. The key responsibilities of the Group Chairman and the Group Chief Executive are set out below.

*Key responsibilities***Group Chairman – D J Flint<sup>1</sup>**

- Leads the Board and ensures its effectiveness.
- Develops relationships with governments, regulators and investors.
- Leads the Group's interactions on matters of public policy and regulatory reform with regard to the banking and financial services industry.
- Maintains corporate reputation and character.
- Undertakes performance management of the Group Chief Executive.

1 Appointed Group Chairman in December 2010.

**Group Chief Executive – ST Gulliver<sup>1</sup>**

- Develops, and delivers performance against, business plans.
- Develops Group strategy, in agreement with the Group Chairman, for recommendation to the Board.
- As Chairman of the GMB, drives performance within strategic goals and commercial objectives agreed by the Board.

1 Appointed Group Chief Executive in January 2011.

**Board balance and independence of Directors**

The Board includes a strong presence of both executive and non-executive Directors and no individual or small group can dominate its decision making. The size of the Board is appropriate given the complexity and geographical spread of our business and the significant time demands placed on the non-executive Directors, particularly those who serve as members of Board committees.

The Nomination Committee regularly reviews the structure, size and composition of the Board (including the skills, knowledge and experience required of Directors) necessary to address and challenge adequately key risks and issues that confront, or may confront, the Board and makes recommendations to the Board with regard to any changes.

During 2012, the Board adopted a Board diversity policy. Further information on this policy can be found on pages 329 and 330 of the *Annual Report and Accounts 2012*.

The Board considers all of the non-executive Directors to be independent in character and judgement. The Board has determined S A Catz, L M L Cha, M K T Cheung, J B Comey, J D Coombe, J Faber, R A Fairhead, R Fassbind, J W J Hughes-Hallett, W S H Laidlaw, J P Lipsky, J R Lomax, Sir Simon Robertson and J L Thornton to be independent. When determining independence the Board considers that calculation of the length of service of a non-executive Director begins on the date of his or her first election by shareholders as a Director of HSBC Holdings. Given the complexity and geographical spread of our business, the experience of previous service on a HSBC subsidiary company board can be a considerable benefit and does not detract from a Director's independence. In reaching its determination of each non-executive Director's independence, the Board has concluded that there are no relationships or circumstances which are likely to affect a Director's judgement and any relationships or circumstances which could appear to do so were considered not to be material. From the conclusion of the Annual General Meeting in 2013, R A Fairhead will have served on the Board for more than nine years and, in that respect only, will not meet the usual criteria for independence set out in the UK Corporate Governance Code.

**Induction**

Full, formal and tailored induction programmes, with particular emphasis on risk management and internal controls systems, are arranged for newly appointed Directors. The programmes consist of a series of meetings with other Directors and senior executives to enable new Directors to familiarise themselves with our strategy, risk appetite and risk management, operations and internal controls. Directors also receive comprehensive guidance on directors' duties and liabilities. As part of the induction process the Group Company Secretary will coordinate a development programme based on an individual Director's needs. Induction programmes are also arranged for newly appointed members of committees.

**Training and development**

Focused in-house training sessions are arranged in conjunction with scheduled Board meetings.

*Executive Directors*

In the performance of their roles as Group Chairman, Group Chief Executive and Group Finance Director respectively, D J Flint, ST Gulliver and I J Mackay develop and refresh their skills and knowledge of the Group's businesses and operations through day-to-day interaction and briefings with senior management of the Group's businesses and functions; and presenting on the Group's businesses to investors and analysts. They remain abreast of developments affecting the financial services sector, and banking in particular, by representing HSBC's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

*Non-executive Directors*

A personalised approach to training and development of non-executive Directors is applied. Non-executive Directors are given opportunities to update and develop their skills and knowledge through briefings by senior executives and externally run seminars. Non-executive Directors have access to internal training and development resources. Development plans and records of training

## Summary Directors' Report (continued)

and development activities are maintained by the Group Company Secretary to facilitate the Group Chairman's annual review of each non-executive Director.

Further information about training and development of Directors is given on pages 312 to 315 of the *Annual Report and Accounts 2012*.

### Appointment, retirement and re-election of Directors

On the recommendation of the Nomination Committee and in compliance with provision B.7.1 of the UK Corporate Governance Code, the Board has decided that all of the Directors should be subject to annual re-election by shareholders. Accordingly, all of the Directors will retire at the forthcoming Annual General Meeting and offer themselves for re-election. Each of the executive Directors is employed on a rolling contract which requires 12 months' notice to be given by either party. None of the non-executive Directors has a service contract with HSBC.

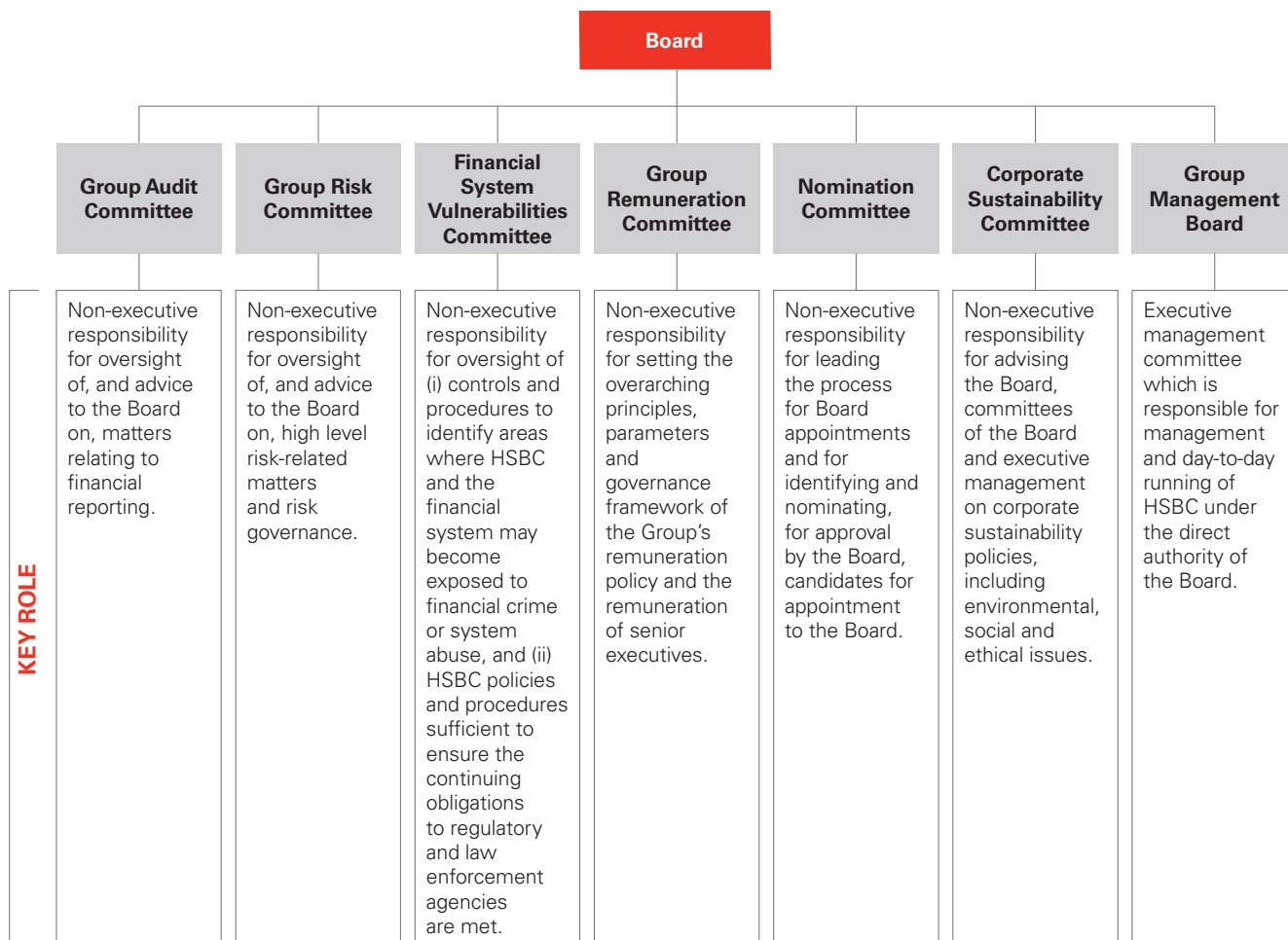
### Corporate governance codes

HSBC is committed to high standards of corporate governance. HSBC has complied during 2012 with the applicable code provisions of: (i) The UK Corporate Governance Code issued by the Financial Reporting Council; (ii) the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, from 1 January 2012 until its amendment and replacement by the Hong Kong Corporate Governance Code on 1 April 2012; and (iii) the Hong Kong Corporate Governance Code from 1 April 2012 to 31 December 2012, save that the Group Risk Committee (all the members of which are independent non-executive Directors), which was established in accordance with the recommendations of the Report on Governance in UK banks and other financial industry entities, is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3

paragraphs (f), (g) and (h)). If there were no Group Risk Committee, these matters would be the responsibility of the Group Audit Committee. At its meeting on 24 May 2012, the Board adopted Terms of Reference and approved a shareholder communication policy as required under the Hong Kong Corporate Governance Code. The UK Corporate Governance Code is available at [www.frc.org.uk](http://www.frc.org.uk) and the Hong Kong Corporate Governance Code is available at [www.hkex.com.hk](http://www.hkex.com.hk).

The Board has adopted a code of conduct for transactions in HSBC Group securities by Directors. The code of conduct complies with The Model Code in the Listing Rules of the FSA and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code. The waivers granted by The Stock Exchange of Hong Kong Limited primarily take into account accepted practices in the UK, particularly in respect of employee share plans. Following specific enquiry, each Director has confirmed that he or she has complied with the code of conduct for transactions in HSBC Group securities throughout the year, save that, on 15 June 2012, an independent non-executive Director acquired an interest as beneficial owner in 3,950 retail bonds and as non-beneficial owner in 1,170 retail bonds of RMB10,000 each issued by HSBC Bank plc before giving notification and receiving written clearance to deal. On 10 January 2013, an independent non-executive Director disposed of an interest as beneficial owner in 500 units of euro-denominated preferred securities of €1,000 each issued by HSBC Capital Funding (Euro 2) L.P. before giving notification. All Directors have since been reminded of their obligations under the code of conduct for transactions in HSBC Group Securities.

## Board committees



## Summary Directors' Report (continued)

The Board has established a number of committees. The key roles of the principal committees are described on page 36. The terms of reference of the non-executive Board committees are available at [www.hsbc.com/boardcommittees](http://www.hsbc.com/boardcommittees).

**Group Management Board**

<b>Members<sup>1,2</sup></b>	ST Gulliver (Chairman) and I J Mackay, who are executive Directors, and A Almeida, S Assaf, I M Dorner, J M Flint, A M Keir, S A Levey, A M Losada, M M Moses, S P O'Sullivan, B Robertson and P T S Wong, all of whom are Group Managing Directors.
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1 As at 4 March 2013.

2 M P Kaur has been appointed as a member with effect from 1 April 2013.

The head of each global business and global function and the chief executive of each region attend Group Management Board ('GMB') meetings, either as members or by invitation.

The GMB meets frequently and exercises the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of HSBC Holdings. Matters reserved for approval by the Board are described on page 310 of the *Annual Report and Accounts 2012*.

The GMB is a key element of our management reporting and control structure such that all of our line operations are accountable either to a member of the GMB or directly to the Group Chief Executive, who in turn reports to the Group Chairman. The Board has set objectives and measures for the GMB. These align senior executives' objectives and measures with the strategy and operating plans throughout HSBC.

The Group Chief Executive (who is Chairman of the GMB) reports to each meeting of the Board on the activities of the GMB.

Regular Risk Management Meetings of GMB, chaired by the Group Chief Risk Officer, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Group.

Regular Global Standards Steering Meetings of the GMB, co-chaired by the Group Chief Risk Officer and Group Chief Legal Officer, are held to develop and implement global standards reflecting best practices which must be adopted and adhered to consistently throughout the Group.

**Group Audit Committee**

The Group Audit Committee ('GAC') has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting and for non-executive oversight of internal controls over financial reporting.

	Meetings attended	Meetings eligible to attend
<b>Members<sup>1</sup></b>		
J D Coombe (Chairman)	5	5
M KT Cheung	5	5
R A Fairhead	5	5
J R Lomax	5	5
<b>Meetings held in 2012</b>	<b>5</b>	

1 All members are independent non-executive Directors.

R Fassbind was appointed a member of the GAC on 1 March 2013.

The Board has determined that M KT Cheung, J D Coombe, R A Fairhead, R Fassbind and J R Lomax are independent according to SEC criteria and may be regarded as audit committee financial experts for the purposes of section 407 of the Sarbanes-Oxley Act and have recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

**Committee's activities**

The GAC undertook the following activities in the discharge of its responsibilities:

- **Financial reporting.** The Committee advised the Board on meeting its external financial reporting obligations through its

reviews of financial statements, interim reports and interim management statements prior to approval by the Board. The Committee also undertook the following:

- endorsed the going concern statement and the statement of compliance with the UK Corporate Governance Code and Hong Kong Corporate Governance Code (formerly the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) for inclusion in the financial statements;
- advised the Board that the annual report and accounts, taken as a whole, is fair, balanced and understandable;
- received reports on proposed changes to the Group's disclosures in the financial statements and the adequacy of procedures to identify transactions and matters requiring disclosure under certain accounting standards;
- reviewed accounting policies and practices, including approval of the critical accounting policies;
- considered provisioning for, and disclosure of, certain litigation and regulatory matters with external legal counsel providing a status update on these matters;
- received a presentation from the Global Head of Tax on current tax issues;
- received a report on the European Banking Authority Capital Exercise 2012 to monitor adherence to recommended core tier 1 ratios; and
- reviewed the procedures for the submission by employees of concerns regarding accounting and/or auditing matters.

During 2012, the GAC considered the significant accounting issues described below. In addressing these issues the Committee considered the appropriateness of management's judgements and estimates, and where appropriate discussed these judgements and estimates with the external auditor. The Committee considered:

- the circumstances leading to the recognition of a provision at 30 June 2012 relating to US regulatory and law enforcement investigations into inadequate compliance with anti-money laundering, US Bank Secrecy and sanctions laws. The Committee noted that management had considered the available information, recent developments, the opinions of external legal counsel and the outcome of past cases on similar matters. The Committee discussed the judgements exercised by management in forming a best estimate of the amount that might have been required to settle the matter, and agreed that a provision of US\$700 million should be made, while noting that this estimate was highly uncertain, and that the amount, when determined, could be higher, possibly significantly so. In the third quarter, the Committee considered the latest developments in this matter and discussed the possibility of a criminal prosecution being brought against one or more Group companies and the possible implications. The Committee agreed with management's judgement that the provision should be increased to US\$1.5 billion, while continuing to note that the final amount could be significantly higher. Subsequently, the Committee noted the payments made in December 2012 under the agreements to achieve resolution with US and UK government agencies, and the terms of the Deferred Prosecution Agreements;
- the developments in the industry investigations and reviews into the setting of London interbank offered rates, European interbank offered rates and other benchmark interest and foreign exchange rates by various regulators and competition and enforcement authorities around the world. The Committee discussed the high degree of uncertainty as to the resolution of these regulatory investigations and reviews, including the timing and potential impact;
- HSBC's exposure to the payment of redress in respect of the possible mis-selling of payment protection insurance policies in the UK and the related provisions. The Committee considered the key assumptions which determine the provisions and the

## Summary Directors' Report (continued)

factors driving the increase during the year. Management's assessment was that the amount of provision at 31 December 2012 of US\$1.3 billion is based on appropriate assumptions about future expected redress payments, while noting the sensitivity of the provision to different outcomes from those assumed;

- HSBC's involvement in the sale of interest rate swaps to small and medium sized businesses in the UK and the potential costs of remediation. The Committee noted that the provision of US\$598 million as at 31 December 2012 reflected the outcome of the FSA's findings from the pilot reviews completed by banks on the selling of these products to customers;
  - the level of loan impairment allowances and charges throughout the year, discussing with management the reasons for significant increases, notably in Brazil as a result of economic conditions and strong growth in lending in recent periods. The Committee considered the judgements and estimates involved in applying roll rate methodologies and noted the recognition of an additional impairment allowance of US\$225 million in respect of the US mortgage lending portfolios to reflect a longer estimated average period of time from current status to write-off. In response to an industry letter from the FSA concerning the application of loan impairment methodologies to loan portfolios vulnerable to credit stresses, the Committee considered reports on the application of HSBC's accounting policies and loan impairment methodologies. The Committee also considered a report on credit exposures and the extent of refinancing risk in HSBC's UK corporate real estate lending portfolio, and how this is reflected in loan impairment allowances;
  - the recoverability of major deferred tax assets balances recognised, including the deferred tax asset balances recognised in the US, Mexico and Brazil;
  - management's judgements involved in the change in estimation methodology for credit valuation adjustments and debit valuation adjustments on derivative financial instruments as at 31 December 2012 as a result of changing market practices;
  - the impairment test performed on HSBC's investment in Bank of Communications Co., Limited as at 31 December 2012. During the year, the market value of the investment was below the carrying amount for a period of approximately ten months, which gave rise to an indicator of impairment. The impairment test identified that, based on an assessment of the value in use of the investment, the investment is not impaired; and
  - management's conclusion that goodwill relating to GB&M Europe is not impaired following reduced profitability in the second half of 2012 which triggered the re-testing of the related goodwill as at 31 December 2012. The Committee noted that disclosure has been made with regards to the extent to which a change in key assumptions would result in the recoverable amount to be equal to its carrying amount.
- **Internal controls over financial reporting.** The Committee undertook an annual review of HSBC's systems of internal controls over financial reporting. During 2012, the Committee monitored the effectiveness of such internal controls and reported regularly to the Board as described on page 334 of the *Annual Report and Accounts 2012*. The Committee received regular reports from the Group Finance Director, the Group Chief Accounting Officer, and the Group Head of Internal Audit. Minutes of the Group Risk Committee ('GRC') and executive committee meetings including the GMB and Risk Management Meetings were provided to the Committee members. The Committee also reviewed the adequacy of resources, qualifications and experience of staff in the Finance function. Reports were submitted to the Committee on internal control matters in relation to the Sarbanes-Oxley Act. The Group Finance Director, the Group Chief Risk Officer, the Group Head of Internal Audit, the Group Chief Accounting Officer, Group Company Secretary, external auditor and other senior executives attended Committee meetings. The Committee had regular discussions with the external auditor and the Group Head of Internal Audit, with an opportunity at each meeting for discussions to take place without management present.
  - **Effectiveness of the internal audit function.** The Committee satisfied itself that the internal audit function was effective and adequately resourced through regular meetings held with, and reports provided by, the Group Head of Internal Audit on internal audit issues, including the effectiveness and adequacy of resources. KPMG undertook a quality assurance review of the internal audit function and concluded that overall, the internal audit function generally conformed to the Institute of Internal Auditors' International Standards and Code of Ethics for the Professional Practice on Internal Auditing. The Committee received reports over the course of 2012 on the activities of the internal audit function and reviewed its planned activities for the following year.
  - **Legal and regulatory environment.** The Committee received regular reports on litigation and on the application of changes in law, regulation, accounting policies and practices and regulatory developments, including reports on developments in the programme to change International Financial Reporting Standards, Basel III, the recommendations of the Independent Commission on Banking, Dodd-Frank Act and changes in the UK Corporate Governance Code and Guidance on Audit Committees.
  - **External auditor.** The Committee provided oversight of the external auditor through regular meetings with the external auditor, including meetings without management present, and receiving reports on the external auditor's strategy in relation to the audit of financial statements and the progress of the audit. The Committee monitored the effectiveness of the audit process through a review of the public report published by the Financial Reporting Council's Audit Inspection Unit on the inspection of the external auditor, an assessment against a best practice checklist for evaluating external auditors, an external audit assessment questionnaire completed by the chief financial officers of the Group's major geographical regions, a review of the relationship between the Group and the external auditor at a senior level and considered the results of feedback provided to the external auditor by members of the Finance function throughout the Group. The Committee approved the remuneration and terms of engagement and recommended to the Board the re-appointment of, the external auditor.
  - **Terms of reference and effectiveness of the Committee.** The Committee undertook an annual review of its terms of reference and of its own effectiveness. Changes were made to the Committee's terms of reference to reflect changes to the requirements of the UK Corporate Governance Code applicable to financial years beginning on or after 1 October 2012 and the Hong Kong Corporate Governance Code.
- The Committee has recommended to the Board that KPMG Audit Plc be reappointed as auditor at the forthcoming Annual General Meeting.
- KPMG has been the Group's auditor since 1991, when HSBC Holdings became the ultimate holding company of the Group, without a tender process for the external audit contract having taken place. It is our intention that a tender process for the external audit contract will be undertaken, with the successful audit firm being appointed by 2015.
- An analysis of the remuneration paid in respect of audit and non-audit services provided by KPMG for each of the past three years is disclosed in Note 8 in the *Annual Report and Accounts 2012*.
- Further information about the Group Audit Committee is given on pages 319 to 322 of the *Annual Report and Accounts 2012*.
- Group Risk Committee**
- The GRC is responsible for advising the Board on high-level risk-related matters and risk governance and for non-executive oversight of risk management and internal controls (other than over financial reporting).



## Summary Directors' Report (continued)

	Meetings attended	Meetings eligible to attend
<b>Members<sup>1</sup></b>		
R A Fairhead <sup>2</sup> (Chairman)	6	7
J D Coombe	7	7
J Faber <sup>3</sup>	5	5
J W J Hughes-Hallett <sup>4</sup>	4	5
J P Lipsky <sup>3</sup>	5	5
J R Lomax	7	7
<b>Meetings held in 2012</b>	<b>7</b>	

- 1 All members are independent non-executive Directors.
- 2 Took a temporary leave of absence due to illness.
- 3 Appointed a member of the Committee on 1 March 2012.
- 4 Retired as a member of the Committee on 31 July 2012.

John Trueman, a non-executive director of HSBC Bank plc and Chairman of its risk and audit committees has continued to attend meetings of the GRC by invitation during 2012. Robert Herdman, a non-executive director of HSBC North America Holdings Inc. and HSBC Bank USA, has been invited by the GRC to attend its meetings from the beginning of 2013. Their experience of risk-related matters in the financial services industry is valued by the Committee.

#### Committee activities

The GRC undertook the following key activities in the discharge of its responsibilities:

- **Oversight of executive risk management.** Regular reports and presentations were received from the Group Chief Risk Officer including at each meeting a presentation of a 'risk map', which provided analysis, on a Group-wide, global business and regional basis, of risk profiles for categories of risk identified in the Group Risk Appetite Statement, and a top and emerging risks report which summarised proposed mitigating actions for identified risks.
- **Legal and regulatory environment.** Reports were received from the Chief Legal Officer on forward-looking legal risks, the Group Head of Compliance on forward-looking compliance risks and the Head of Group Performance and Reward. Regular updates were received on the investigations by US regulatory and law enforcement authorities and US dispute risk, and compliance matters in the US and the steps taken to remediate these compliance issues. The Group Finance Director, Group Chief Risk Officer, Group Chief Accounting Officer, Group Company Secretary and the external auditor and other senior executives attended Committee meetings.
- **Stress testing.** The Committee reviewed the outcome of certain stress tests referred to in the section headed 'Stress Testing' on pages 127 and 128 of the *Annual Report and Accounts 2012*.
- **Review of effectiveness of internal controls.** The Committee undertook an annual review of HSBC's systems of internal controls, other than over financial reporting. During 2012, the Committee monitored the effectiveness of such internal controls and reported regularly to the Board as described on page 334 of the *Annual Report and Accounts 2012*. A series of presentations were made, and reports submitted, by the Group Chief Risk Officer and other business and function heads to the Committee on the risk control framework in their respective business or function. Reports from the Group Head of Internal Audit on the internal audit process and weaknesses identified in internal controls (other than over financial reporting) were presented to the Committee, as well as reports from regulators relating to the internal control systems.
- **Risk appetite.** The Committee reviewed the alignment of risk appetite and Group strategy. Regular reviews were undertaken of the Group's risk profile against the key performance indicators set out in the risk appetite statement, which considered the need for any adjustment to the risk appetite. Refinements to the 2012 Risk Appetite Statement were approved with the refined 2012 Risk Appetite Statement being used in the preparation of the Annual Operating Plan for 2013. Reports and presentations were received

from the Group Chief Risk Officer, including on the results of HSBC's stress testing and scenario analysis programme.

- **Alignment of remuneration with risk appetite.** Presentations and reports were received on remuneration-related proposals to assist the Committee in giving advice to the Group Remuneration Committee on the alignment of remuneration with risk appetite. The GRC considered risk-related issues to have been appropriately taken into account by the Group Remuneration Committee, including when determining the total variable pay funding pool for the 2012 performance year and the proposed design of the performance scorecard for the 2013 performance year. The Committee received presentations on the procedure for determining individual variable pay awards including the risk assessment process for identifying matters for which risk-related adjustments may be made to individual and team awards. The process by which an individual's adherence to HSBC Values and the Group's risk-related policies and procedures is taken into account in performance assessment and determination of variable pay was also reported to the Committee. The Committee provided advice and feedback on risk-related matters to the Group Remuneration Committee where appropriate.
- **Top and emerging risks.** In monitoring top and emerging risks the Committee received reports from the Group Chief Risk Officer and the Group Head of Compliance as well as other members of senior management on risks identified and developments in the Group's business, including the changing regulatory environment; the implications of regulatory investigations and global market risk such as the implications of an emerging market slowdown and the impact on trade and capital flows.
- **Acquisitions and disposals.** The Committee received reports and presentations on risk issues relating to proposed strategic acquisitions and the risk management of disposals and advised the Board appropriately. The Group Head of Mergers and Acquisitions and other members of senior management involved in proposed acquisitions and disposals attended meetings of the Committee as appropriate.
- **Oversight of risk governance framework.** Minutes of the GAC, Group Remuneration Committee and executive committee meetings including the GMB, the Risk Management Meeting and the Group Reputational Risk Policy Committee were provided to Committee members. From January 2013, the minutes of the Global Standards Steering Meeting and from February 2013 the minutes of the Financial System Vulnerabilities Committee, will be made available to the Committee.
- **Terms of reference and Committee effectiveness.** The Committee undertook a review of its terms of reference and of its own effectiveness. The Committee recommended to the Board a change to its terms of reference to maintain consistency with the terms of reference of the GAC which were amended to comply with changes to the requirements of the Hong Kong Corporate Governance Code.

Further information about the Group Risk Committee is given on pages 323 to 328 of the *Annual Report and Accounts 2012*.

#### Financial System Vulnerabilities Committee

Members <sup>1</sup>
R A Fairhead (Chairman)
J B Comey <sup>2</sup>
N Fishwick <sup>3</sup>
D Hartnett <sup>3, 4</sup>
W Hughes <sup>3</sup>
Sir Simon Robertson
L H Schrank <sup>3</sup>
J C Zarate <sup>3, 5</sup>

- 1 All members appointed on 18 January 2013, unless otherwise indicated.
- 2 Appointed on 4 March 2013, being the date he became a Director.
- 3 Co-opted non-director member of the Committee.
- 4 Appointed on 1 February 2013.
- 5 Also provides advisory services to the board of HSBC North America Holdings Inc.

The Financial System Vulnerabilities Committee, established by resolution of the Board in January 2013, has non-executive

## Summary Directors' Report (continued)

responsibility for governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may become exposed and, through that exposure, expose the financial system more broadly to financial crime or system abuse. The Committee will also have oversight of matters relating to anti-money laundering, sanctions, terrorist financing and proliferation financing, including the establishment, implementation, maintenance and review of adequate policies and procedures sufficient to ensure the continuing obligations to regulatory and law enforcement agencies are met.

The Committee will oversee and report to the Board on implementation of the actions necessary to build assurance in these areas and will seek to provide the Board with a forward-looking perspective on financial crime risk.

The Committee will meet at least four times each year.

Further information about the Financial System Vulnerabilities Committee is given on pages 328 and 329 of the *Annual Report and Accounts 2012*.

**Group Remuneration Committee**

	Meetings attended	Meetings eligible to attend
<b>Members<sup>1</sup></b>		
J L Thornton (Chairman)	7	8
J D Coombe	8	8
W S H Laidlaw	8	8
G Morgan <sup>2</sup>	5	5
<b>Meetings held in 2012</b>	<b>8</b>	

1 All members are independent non-executive Directors.

2 Retired as a Director on 25 May 2012.

R Fassbind has been appointed a member of the Committee since 1 March 2013.

The Group Remuneration Committee is responsible for approving remuneration policy. As part of its role, it considers the terms of annual incentive plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on our risk profile and in doing so takes into account the pay and conditions across the Group. No Directors are involved in deciding their own remuneration.

The 'Summary Directors' Remuneration Report' is set out on pages 42 to 54.

**Nomination Committee**

	Meetings attended	Meetings eligible to attend
<b>Members<sup>1</sup></b>		
Sir Simon Robertson (Chairman)	4	4
R A Fairhead <sup>2</sup>	3	4
J W J Hughes-Hallett	4	4
J P Lipsky <sup>3</sup>	2	2
Sir Brian Williamson <sup>4</sup>	1	2
<b>Meetings held in 2012</b>	<b>4</b>	

1 All members are independent non-executive Directors.

2 Took a temporary leave of absence due to illness.

3 Appointed a member of the Committee on 24 May 2012.

4 Retired as a Director on 25 May 2012.

**Committee activities**

The Committee undertook the following key activities in the discharge of its responsibilities:

- **Appointments of new Directors.** The Committee oversaw the process for the appointments of J Faber, R Fassbind and J P Lipsky as Directors. An external search consultancy, MWM Consulting, was used in relation to these appointments. MWM Consulting has no other connection with HSBC. The Committee also oversaw the process for the appointment of J B Comey, who was introduced to us by a member of senior management. Having regard to his public

and private sector roles, neither external consultants nor advertising were considered necessary in relation to this appointment.

- **Board appointment process.** The Committee leads the process for Board appointments, with the support of external consultants as appropriate. The Board has satisfied itself that the Committee has appropriate plans in place for orderly succession to the Board reflecting an appropriate balance of skills and experience on the Board.
- **Forward planning.** The Committee adopts a forward-looking approach to potential candidates for appointment to the Board that takes into account the needs and development of the Group's businesses and the expected retirement dates of current Directors.
- **Size, structure and composition.** The Committee monitored the size, structure and composition of the Board through consideration of the skills, knowledge and experience required of the Board and the skills, knowledge and experience of the current Directors. The Committee considered the re-election of Directors at the Annual General Meeting and has recommended to the Board that all Directors should stand for re-election.
- **Diversity.** During the year, the Board adopted a policy on Board diversity which is consistent with the Group's strategic focus on ethnicity, age and gender diversity for the employee base. Board appointments will continue to be made based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, including gender. The Committee developed measurable objectives to implement this policy and monitored progress towards achieving these objectives. The Board diversity policy is available at [www.hsbc.com/investor-relations/governance/corporate-governance-codes](http://www.hsbc.com/investor-relations/governance/corporate-governance-codes). The benefits of diversity continue to influence succession planning and are key criteria in the instructions to external search consultants.
- **Director training and development.** The Committee reviewed and monitored the training and continuous professional development of Directors and senior management.
- **Time commitment and independence of non-executive Directors.** The Committee made recommendations to the Board, having assessed the independence of, and time required from, the non-executive Directors.
- **Terms of reference and Committee effectiveness.** The Committee undertook a review of its terms of reference and its own effectiveness including the Committee's role in assessing the independence of the non-executive Directors as required following changes made to The Hong Kong Corporate Governance Code.

Before recommending an appointment to the Board, the Committee evaluates the balance of skills, knowledge and experience of the Board and, in light of this, and taking into account the needs of the Group's businesses, identifies the role and capabilities required for a particular appointment. Candidates are considered on merit against these criteria. Care is taken to ensure that appointees have enough time to devote to us. Prospective Directors are asked to identify any significant other commitments and confirm they have sufficient time to discharge what is expected of them.

**Corporate Sustainability Committee**

	Meetings attended	Meetings eligible to attend
<b>Members</b>		
L M L Cha (Chairman) <sup>1</sup>	3	4
N R N Murthy <sup>2</sup>	4	4
G V I Davis <sup>3</sup>	3	4
Lord May <sup>4</sup>	4	4
Dame Mary Marsh <sup>4</sup>	4	4
<b>Meetings held in 2012</b>	<b>4</b>	

1 Appointed Chairman on 1 January 2013.

2 Retired as a Director and Chairman of the Committee on 31 December 2012.

3 Retired as a co-opted non-director member of the Committee on 29 November 2012.

4 Co-opted non-director member of the Committee.

## Summary Directors' Report (continued)

J W J Hughes-Hallett has been a member of the Committee since 1 January 2013.

### Sustainability governance

The Corporate Sustainability Committee is responsible for advising the Board, committees of the Board and executive management on corporate sustainability policies across the Group including environmental, social and ethical issues.

### Community investment

We have a long-standing commitment to the communities in which we operate. Many of our key markets are emerging economies. Our operations bring benefits to our host countries through tax contributions, and to local people and businesses through employment, training, purchasing and investment. Beyond our core business, we aim to encourage social and economic opportunity through community investment activities.

Our focus is on education and the environment because we believe they are essential building blocks for the development of communities and are prerequisites for economic growth. These philanthropic programmes aim to involve employees in the work of local non-governmental organisations ('NGOs') and charities. Our global education programmes focus on helping disadvantaged children, promoting financial literacy and international and cultural understanding.

In 2012, we launched our new flagship environmental programme, the HSBC Water Programme. This is a five-year, US\$100 million programme in partnership with three NGOs which rank amongst the world's most respected environmental and development organisations. Together with Earthwatch, WaterAid and WWF, the Programme will deliver the powerful combination of water provision, protection, information and education; resulting in the most groundbreaking water programme committed to by a financial organisation. The Programme will benefit communities in need and enable economies to prosper, driving development and social-economic growth. Following the success of our previous HSBC Climate Partnership, this programme will create a community of employees and opportunities for employee involvement and volunteering.

In 2012, we donated a total of US\$120 million to community investment projects (2011: US\$96 million).

### Called up share capital

Information about shares issued during the year is given in Note 5 on page 59.

### Dividends for 2012

First, second and third interim dividends for 2012, each of US\$0.09 per ordinary share, were paid on 5 July 2012, 4 October 2012 and 12 December 2012 respectively. On 4 March 2013, the Directors declared a fourth interim dividend for 2012 of US\$0.18 per ordinary share in lieu of a final dividend, which will be payable on 8 May 2013 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 29 April 2013, with a scrip dividend alternative. As the fourth interim dividend for 2012 was declared after 31 December 2012, it has not been included in the balance sheet of HSBC as a debt. The reserves available for distribution at 31 December 2012 were US\$38,175 million.

A quarterly dividend of US\$15.50 per 6.20% non-cumulative US Dollar Preference Share, Series A ('Series A Dollar Preference Share'), (equivalent to a dividend of US\$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A Dollar Preference Share), was paid on 15 March, 15 June, 17 September and 17 December 2012.

### Dividends for 2013

The proposed timetable for interim dividends in respect of 2013 on the ordinary shares is set out in the 'Shareholder Information' section on page 62.

Quarterly dividends of US\$15.50 per Series A Dollar Preference Share (equivalent to a dividend of US\$0.3875 per Series A American

Depositary Share, each of which represents one-fortieth of a Series A Dollar Preference Share) and £0.01 per Series A Sterling Preference Share were declared on 7 February 2013 for payment on 15 March 2013.

### Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank plc and The Hongkong and Shanghai Banking Corporation Limited, which are members of a European Economic Area exchange, neither we nor any of our subsidiaries have purchased, sold or redeemed any of our listed securities during the year ended 31 December 2012.

### Communication with shareholders

Communication with shareholders is given high priority. The Board has adopted a shareholder communication policy which is available on [www.hsbc.com](http://www.hsbc.com). Extensive information about our activities is provided to shareholders in the *Annual Report and Accounts*, *Annual Review* and the *Interim Report* which are available on [www.hsbc.com](http://www.hsbc.com). There is regular dialogue with institutional investors and enquiries from individuals on matters relating to their shareholdings and our business are welcomed and are dealt with in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting or the informal meeting of shareholders held in Hong Kong to discuss our progress. Shareholders may send enquiries to the Board in writing to the Group Company Secretary, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, UK, or by sending an email to [shareholderquestions@hsbc.com](mailto:shareholderquestions@hsbc.com).

Shareholders may require the Directors to call a general meeting, other than an annual general meeting as provided by the UK Companies Act 2006. Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A resolution may properly be moved at a meeting unless it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); it is defamatory of any person; or it is frivolous or vexatious. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the postal address referred to in the paragraph above or by sending an email to [shareholderquestions@hsbc.com](mailto:shareholderquestions@hsbc.com). At any meeting convened on such request no business shall be transacted except that stated by the requisition or proposed by the Board.

### Annual General Meeting

All Directors listed on pages 31 to 33 attended the 2012 Annual General Meeting with the exception of G Morgan who was unable to attend, and R Fassbind and J B Comey who were not Directors at the date of the Annual General Meeting. G Morgan ceased to be a Director from the conclusion of the 2012 Annual General Meeting.

The 2013 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 24 May 2013 at 11.00 am.

An informal meeting of shareholders will be held at 1 Queen's Road Central, Hong Kong on Monday, 20 May 2013 at 4.30 pm.

### Auditor's Report

The auditor's report on the full accounts for the year ended 31 December 2012 was unqualified and did not include a statement under section 498(2) (inadequate accounting records or returns or accounts not agreeing with records or returns) or section 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The statement under section 496 (whether the Directors' Report is consistent with the accounts) was unqualified.

# Summary Directors' Remuneration Report

## Remuneration strategy

The quality and commitment of our human capital is fundamental to our success and, accordingly, the Board aims to attract, retain and motivate the very best people. As trust and relationships are vital in our business, our goal is to recruit those who are committed to maintaining a long-term career with the organisation.

HSBC's reward strategy supports this objective through balancing both short-term and sustainable performance. Our reward strategy aims to reward success, not failure, and be properly aligned with our risk framework and risk outcomes.

In order to ensure alignment between remuneration and our business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to the HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged, not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation.

The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the Group.

## Structure of remuneration

In order to simplify remuneration, elements are limited to the following:

- fixed pay;
- benefits;
- annual incentive; and
- the Group Performance Share Plan.

The Group Performance Share Plan ('GPSP') was developed to incentivise senior executives to deliver sustainable long-term business performance. A key feature of the GPSP is that participants are required to hold the awards, once they have vested, until retirement, thereby enhancing the alignment of interest between the senior executives of the Group and shareholders. Further details are given on page 44.

Executive Directors, Group Managing Directors and Group General Managers participate in both performance-related plans, namely the annual incentive and the GPSP. Other employees across the Group are eligible to participate in annual incentive arrangements. Both the annual incentive and long-term incentive awards are funded from a single annual variable pay pool from which individual awards are considered. Funding of the Group's annual variable pay pool is determined in the context of Group profitability, capital strength, and shareholder returns. This approach ensures that performance related awards for any global business, global function, geography or level of staff are considered in a holistic fashion.

## Group variable pay pool

The 2012 Group variable pay pool was considered in the context of the Group's underlying profit before tax. This calculation of profit excludes movements in the fair value of own debt attributable to credit spread and the impact of acquisitions and disposals and includes the costs of the US regulatory and law enforcement fines and penalties and other items of redress arising in 2012. For the purposes of considering the variable pay pool the normal profits from the disposed businesses up to their actual disposal are included in the calculation.

## Specific actions taken in respect of 2012

- In addition to the cost of fines and penalties and redress being taken into account in the initial determination of the variable pay pool through their impact on underlying profits, a further reduction was made to the overall 2012 pool by the Committee to reflect the reputational damage incurred from the US legal and regulatory fines and penalties and to shift a higher proportion of the impact to the variable pay pool.
- Additionally, for annual incentive awards in respect of 2012 for executive Directors, Group Managing Directors and Group General Managers, the deferred element of the 2012 incentive will be deferred for an extended period of five years and will vest subject to satisfactory completion of the Deferred Prosecution Agreements and subject to the terms of the GPSP.
- The Committee has further exercised its discretion and reduced the performance outcome of the 2012 long-term scorecard. For further details see page 47.
- Clawback has been exercised by the Committee during 2012 and 2013 principally in respect of the US regulatory and law enforcement fines and penalties.

	Group		Global Banking and Markets	
	2012 US\$m	2011 US\$m	2012 US\$m	2011 US\$m
Total variable pay pool	<b>3,689</b>	4,223	<b>1,266</b>	1,210
	%	%	%	%
Variable compensation incentive pool as a percentage of underlying pre-tax profit (pre-variable pay) <sup>1</sup>	<b>17</b>	18	<b>13</b>	14
Proportion of incentive that is deferred	<b>17</b>	16	<b>28</b>	27

<sup>1</sup> The 2012 Group pre-tax profit pre-variable pay calculation is described above. The 2011 Group pre-tax profit pre-variable pay includes the add-back of restructuring costs incurred during the year, and the adjustment for movements in the fair value of own debt attributable to credit spread.

Summary Directors' Remuneration Report (continued)

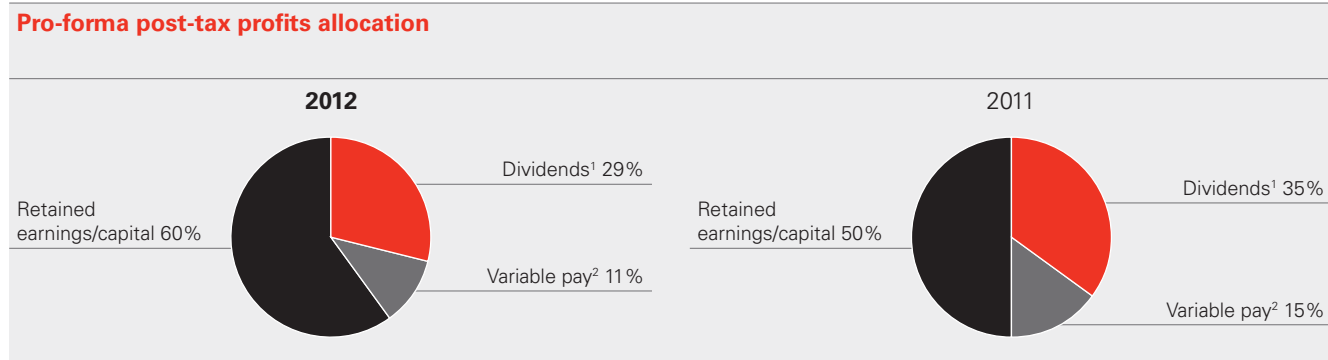
**Change in key metrics**

(Unaudited)

The table and charts below show the percentage change in profit, dividends and overall expenditure on staff pay.

	Underlying profit %	Dividend %	Overall expenditure on staff pay %
<b>Change:</b>			
2012 from 2011	+18	+10	-3

On a pro forma basis, attributable profits (excluding movements in the fair value of own debt and before variable pay distributions) are allocated in the proportions shown in the charts below.



1 Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2012 were US\$0.45, an increase of 10% compared with 2011.  
 2 Total variable pay pool net of tax and portion to be delivered by the award of HSBC shares.

**Role, membership and activities of the Group Remuneration Committee**

Within the authority delegated by the Board, the Committee is responsible for approving the Group's remuneration policy. The Committee also determines the remuneration of Directors, senior employees, employees in positions of significant influence and employees whose activities have or could have an impact on our risk profile and, in doing so, takes into account the pay and conditions across the Group. No Directors are involved in deciding their own remuneration.

The members of the Committee during 2012 were J L Thornton (Chairman), J D Coombe, W S H Laidlaw and G Morgan (retired as a Director on 25 May 2012). R Fassbind was appointed a member of the Committee on 1 March 2013. There were eight meetings of the Committee during 2012. The table on page 40 gives details

of Directors' attendance at these meetings. The Committee has decided not to use external advisers except in exceptional circumstances. During 2012, Freshfields Bruckhaus Deringer were engaged to provide legal advice in connection with the clawback process. During the year, the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Group Head of Human Resources and Corporate Sustainability, A Almeida, the Group Head of Performance and Reward, T Roberts and the Group Chief Risk Officer, M M Moses, all of whom provided advice as part of their executive role as employees of HSBC. The Committee also received advice and feedback from the Group Risk Committee on risk-related matters relevant to remuneration and the alignment of remuneration with risk appetite.

Summary Directors' Remuneration Report (*continued*)**Summary of remuneration policy**

The following remuneration policy for Directors is subject to a binding shareholder vote every three years commencing with the 2013 financial year. The section on service contracts and exit payments is also subject to the binding vote and can be found on page 49.

Purpose and link to strategy	Operation and planned changes to policy	Opportunity and performance metrics
<b>Fixed pay</b> Takes account of experience and personal contribution to the individual's role.	No fixed pay increases are proposed for executive Directors in 2013.	n/a
<b>Benefits</b> Takes account of local market practice.	Benefits include the provision of medical insurance, other insurance cover, tax return preparation and travel assistance. No changes were made to HSBC's benefits policy during the year.	n/a
<b>Annual incentive<sup>1</sup></b> Drives and rewards performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy.	Awards are delivered in the form of cash and shares with the structure and deferral meeting the FSA Remuneration Code requirements.  The total vesting period of deferred awards will be no less than 3 years as mandated under the FSA Remuneration Code. Where the total vesting period is three years, the share awards will be subject to a six-month retention period upon vesting.	Maximum incentive is three times fixed pay.  Performance is measured against an annual scorecard, based on a mixture of financial and non-financial measures. The scorecards vary by individual. Further detail on each scorecard for the most recent awards can be found on pages 46 and 47. The policy for determining awards is set out on page 45.
<b>Group Performance Share Plan (GPSP)<sup>1</sup></b> Incentivises sustainable long-term performance and alignment with shareholder interests.	Award levels are determined by considering performance up to the date of grant against enduring performance measures set out in the long-term performance scorecard.  The award is subject to a five-year vesting period during which the Committee has the authority to claw back all or part of the award. See page 45 for more details on clawback.  On vesting, the shares (net of tax) must be retained until the participant retires.	Maximum award is six times fixed pay.  The 2013 scorecard remains consistent with 2012. Overall performance is to be judged on performance outcomes and adherence to HSBC Values being a gating mechanism. See page 47 for further details.
<b>Pension</b>	No pension changes proposed for 2013.	n/a
<b>Non-executive Director</b>	Non-executive Directors receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives.  The current fee, which was approved by shareholders in 2011, is £95,000 per annum. A fee of £45,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees:  <ul style="list-style-type: none"> <li>• Group Audit, Group Risk, Group Remuneration and Financial System Vulnerabilities Committees: <ul style="list-style-type: none"> <li>– Chairman: £50,000</li> <li>– Member: £30,000</li> </ul> </li> <li>• Nomination and Corporate Sustainability Committees: <ul style="list-style-type: none"> <li>– Chairman: £40,000</li> <li>– Member: £25,000</li> </ul> </li> </ul>	n/a

<sup>1</sup> This approach applies to all executive Directors with the exception of the Group Chairman, D J Flint, who, from 2011, is not eligible for an annual incentive and is not expected to be granted awards under the GPSP other than in exceptional circumstances.

Summary Directors' Remuneration Report (*continued*)**Material factors taken into account when setting pay policy**

The Committee takes into account a variety of factors when determining the remuneration policy for Directors. A summary of these factors is provided below.

**Internal factors***Funding*

HSBC considers pay across the Group when determining remuneration levels for its executive Directors. Eligibility for the GPSP is restricted to executive Directors, Group Managing Directors and Group General Managers. Other employees across the Group are also eligible to participate in annual incentive arrangements. Both the annual incentive and long-term incentive awards are funded from a single annual variable pay pool from which individual awards are considered.

The dilution limits set out in the HSBC share plans comply with the Association of British Insurers' guidelines. Prior to 2012, all equity-settled awards of Performance Shares and Restricted Shares vesting under the HSBC Share Plans were satisfied by the transfer of existing shares held under a trust. To create additional core tier 1 capital and retain funds within HSBC, Restricted Share vestings since 2012 have been satisfied by a mixture of existing shares from the trust and new issue shares.

**External factors***Regulation*

There is still a wide divergence in how regulations operate globally and this presents significant challenges to HSBC, which operates in 81 countries and territories worldwide. In order to deliver long-term sustainable performance, it is important we have market-competitive remuneration and equivalence of reward across geographic boundaries in order to attract, motivate and retain talented and committed employees around the world. We ensure our remuneration policies are aligned with both new regulatory practices and the interests of shareholders and confirm that HSBC is fully compliant with the Financial Stability Board and the FSA guidance and rules on remuneration.

*Comparator group*

The Committee considers market data for executive Directors' remuneration packages from a defined remuneration comparator group. This group consists of nine global financial services companies, namely Banco Santander, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, JPMorgan Chase & Co, Standard Chartered and UBS. These companies were selected on the basis of their broadly similar business coverage, size and international scope, and are subject to annual review for continuing relevance.

*Shareholder context*

During the year, the Chairman of the Remuneration Committee met with institutional shareholders to collect their views on current and developing remuneration practices. The Group considers these meetings vital to ensure that our reward strategy continues to be aligned with the long-term interests of our shareholders.

**Variable pay pool determination**

The Committee considers many factors in determining the Group's variable pay pool funding.

The variable pay pool takes into account the performance of the Group which is considered within the context of our Risk Appetite Statement. This helps to ensure that the variable pay pool is shaped by risk considerations. The Risk Appetite Statement describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. It shapes the integrated approach to business, risk and capital management and supports achievement of the Group's objectives. The Group Chief Risk Officer regularly updates the Committee on the Group's performance against the Risk Appetite Statement.

The Committee uses these updates when considering remuneration to ensure that return, risk and remuneration are aligned.

We use a counter-cyclical funding methodology which is categorised by both a floor and a ceiling and the payout ratio reduces as performance increases to avoid pro-cyclicality risk. The floor recognises that franchise protection is typically required irrespective of performance levels. The ceiling recognises that at higher levels of performance it is possible to limit reward as it is not necessary to continue to increase the variable pay pool and thereby limiting the risk of inappropriate behaviour to drive financial performance.

In addition, our funding methodology considers the relationship between capital, dividends and variable pay to ensure that the distribution of post-tax profits between these three elements is considered appropriate (see page 43 for the 2012 and the 2011 split). It is deemed fundamental to the Group that a majority of post-tax profit should be allocated to capital and to shareholders, particularly when a strong performance is delivered.

Finally, the commercial requirement to remain competitive in the market and overall affordability are considered.

**Clawback**

In order to reward genuine performance and not failure, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. However, if the assessment of performance subsequently proves to be inaccurate or incorrect, then unvested deferred awards made since 2010 can be clawed back by the Committee.

**Individual awards**

Individual awards are based on the achievement of both financial and non-financial objectives. These objectives, which are aligned with the Group's strategy, are detailed in participants' annual performance scorecards and the collective long-term performance scorecard of participants in the GPSP. Performance is then measured and reviewed against the objectives on a regular basis.

Overall performance under both scorecards is judged on outcomes but, most importantly, adherence to the HSBC Values as described on page 42 is a prerequisite before any individual can be considered for any variable pay. In other words, adherence with the values acts as a gating item. These values are key to the running of a sound, sustainable bank. Specifically, our most senior employees had a separate values rating for 2012 which directly influenced their overall performance rating and, accordingly, their variable pay.

In addition, the Global Risk and Compliance functions carry out annual reviews for senior executives and risk-takers (defined as 'HSBC Code Staff'). These reviews determine whether there are any instances of non-compliance with Risk and Compliance procedures and expected behaviour. Instances of non-compliance are escalated to senior management for consideration in variable pay decisions, clawback and ongoing employment.

Group-wide thematic reviews of risk are also carried out to determine if there are any transgressions which could affect the amount of current year variable pay or any instances where clawback of previously awarded variable pay is required. Risk and Compliance input is a critical part of the assessment process in determining the performance of HSBC Code Staff (which includes the executive Directors) and in ensuring that their individual remuneration has been appropriately assessed with regard to risk.

We require a proportion of variable pay awards above certain thresholds to be deferred into awards of HSBC shares. This is to ensure that the Group's interests and those of its employees are aligned with those of the Group's shareholders, that the Group's approach to risk management supports the interests of all stakeholders and that remuneration is consistent with effective risk management.

In considering individual awards, a comparison of the pay and employment conditions of our employees, Directors and senior executives is considered by the Committee.

Summary Directors' Remuneration Report (*continued*)**Summary of 2012 remuneration outcomes****Single figure of remuneration for each executive Director***(Unaudited)*

	Base salary £000	Benefits <sup>1</sup> £000	Pension <sup>2</sup> £000	Annual incentives £000	Long-term incentive £000	2012 total £000	2011 total £000
<b>Executive Directors</b>							
D J Flint	1,500	855	–	–	–	2,355	2,348
A A Flockhart <sup>2</sup>	325	239	6	–	–	570	3,639
ST Gulliver	1,250	1,220	13	1,950	3,000	7,433	8,047
I J Mackay	700	421	–	1,348	1,400	3,869	3,213

1 The emoluments table on page 50 provides further details on the benefits included.

2 Ceased to be an executive Director on 30 April 2012.

3 As disclosed on page 48.

- **Base salary:** salary paid in year for executive Directors.
- **Benefits:** taxable benefits including cash in lieu of pension.
- **Annual incentive:** annual incentive award cash and share payments (including deferred awards) for the 2012 performance year. The outcomes of the performance conditions which determined the award are described in the next section. Forty per cent of the annual incentive in respect of the 2012 performance year is non-deferred. The non-deferred incentive is split between 50% cash and 50% payable in HSBC Holdings Restricted Shares, which are subject to a six-month retention period. 60% of the full annual incentive award is deferred equally between cash and shares and vests 100% after five years subject to the successful completion of the Deferred Prosecution Agreements and subject to the terms of the Plan.
- **Long-term incentives:** long-term incentives include all other awards where final vesting is determined as a result of the achievement of performance conditions that end in the year being reported on. For 2012 this would only include the 2013 GPSP.

The GPSP awards to be granted in 2013 in respect of 2012 were assessed against the 2012 long-term scorecard detailed on page 47.

The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award.

On vesting, the net of tax shares must be retained until the participant retires.

**Variable pay outcomes***(Unaudited)*

	Maximum multiple	ST Gulliver			I J Mackay		
		2012 multiple awarded	2012 £000	2011 £000	2012 multiple awarded	2012 £000	2011 £000
Salary <sup>1</sup>	1.00	1.00	1,250	1,250	1.00	700	700
Annual incentive <sup>2</sup>	3.00	1.56	1,950	2,156	1.92	1,348	1,086
GPSP Awards <sup>3</sup>	6.00	2.40	3,000	3,750	2.00	1,400	700
<b>Total</b>			<b>6,200</b>	<b>7,156</b>		<b>3,448</b>	<b>2,486</b>

1 As disclosed in the Directors' emoluments table on page 50.

2 50% of the annual incentive is delivered in cash with the remaining 50% in shares. 60% of the annual incentive for 2012 is deferred for five years. 100% vests on the fifth anniversary of grant subject to the successful completion of the Deferred Prosecution Agreements. During the vesting period the Committee has the authority to claw back part or all of the award.

3 As disclosed in the 2012 long-term scorecard and performance outcome on page 47. The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award. On vesting, the net of tax shares must be retained until the participant retires.

**Determining executive Directors' performance***ST Gulliver*

The annual incentive award made to ST Gulliver in respect of 2012 reflected the Committee's assessment of the extent to which he had achieved the personal and corporate objectives set for him within his performance scorecard as agreed by the Board at the beginning of the year. This measurement took into account his performance against both the financial and non-financial measures which had been set to reflect the risk appetite and strategic priorities determined by the Board to be appropriate for 2012.

In order for any award of annual incentive to be made under the above performance scorecard, the Committee firstly had to satisfy itself that ST Gulliver had personally met and shown leadership in promoting HSBC Values. This overriding test assessed behaviour around the HSBC Values principles of being 'open, connected and dependable' and acting with 'courageous integrity'. Independent feedback was taken from direct reports and others lower in the organisation as well as from the Group Chairman. Taking this into account as well as its own experience and observation, including noting how ST Gulliver had dealt with situations where HSBC Values had not been met, the Committee concluded that ST Gulliver had exhibited strong leadership and personal behaviour in this area and so met the required standard.

In aggregate, in assessing the calibration of ST Gulliver's 2012 annual incentive against his theoretical maximum opportunity of three times base salary, an overall score of 52% (2011: 57.5%) of that maximum opportunity was judged to have been achieved. The achievement of the financial element of the scorecard was scored marginally higher than the non-financial measures. A summary of the assessment and rationale for the conclusions is set out below. Unless otherwise indicated, the figures in parentheses denote the opportunity within the scorecard.

*Financial (60% weighting – achieved 32%)*

The Committee continued to judge Capital Strength (10%) and Dividend Payout (10%) as critically important reflections of financial performance as they encapsulate a number of key factors of importance to shareholders. In essence these elements demonstrate a combination of profit generation, control of capital usage, cash availability at the holding company and regulatory satisfaction with the preceding factors sufficient to support HSBC's progressive dividend policy. In essence these elements are important indicators of the sustainability of shareholder reward. Reflecting a higher dividend in 2012 and a stronger core tier 1 capital ratio, the Committee awarded full weighting of these elements of the scorecard.



Summary Directors' Remuneration Report (*continued*)

An opportunity of 15% was available in respect of delivering pre-tax profit improvement (on the underlying basis described on page 42 used to assess management performance) and this was judged to have been substantially met with the Committee awarding 80% of the available opportunity (12% award). Driving this assessment were the strong performances across the faster growing markets, particularly in Hong Kong, the turnaround in GB&M's performance in Europe, the delivery of above target sustainable cost savings and lower loan impairment charges driven by marked improvement in the United States.

Return on Equity (15%) did not meet the benchmark return. The Cost Efficiency Ratio (10%) also fell outside the required measure, in large part attributable to the significant regulatory and law enforcement fines and penalties incurred in the US and customer redress costs suffered in the UK.

*Non-financial (40% weighting – achieved 20%)*

25% of the available opportunity in this area related to Strategy Execution and 80% was judged to have been achieved (20% awarded). This strong performance reflected a combination of growing capital deployment into targeted areas of opportunity, particularly into faster growing markets, strategic cost efficiency initiatives successfully deployed, evidence of further benefits from global business integration, progress on building wealth management revenues and personal commitment to developing client relationships.

The final opportunity under non-financial measures (15%) related to Risk and Compliance and in light of the US regulatory and law enforcement fines and penalties and further customer redress in the UK, no award was made under this element.

The same deliberations and assessments with regard to performance and adherence to HSBC Values were undertaken by the Committee with regard to the performance of I J Mackay. This is summarised below.

*I J Mackay*

The performance scorecard for I J Mackay was weighted 30% financial, 70% non-financial. In aggregate, in assessing the quantum

of the 2012 annual incentive against the theoretical maximum opportunity of three times base salary, an overall score of 64% of that maximum opportunity was judged to have been achieved.

The Committee considered that performance against the financial targets of Cost Disciplines and Capital and Liquidity Management had been met or were in progress.

The Committee considered that performance against the non-financial targets including People, Reporting and Planning, Maintaining a Strong Control Environment and Regulatory Change had been met or were in progress. With regard to Compliance and Reputation, in light of the US regulatory and law enforcement fines and penalties and further customer redress in the UK no award was made under this element of the scorecard.

**Awards under the GPSP**

Awards to be granted in 2013 in respect of 2012 were assessed against the 2012 long-term scorecard published in last year's *Annual Report and Accounts* and reproduced below.

The performance assessment under the 2012 long-term scorecard took into account achievements under both financial and non-financial objectives, both of which were set within the context of the risk appetite and strategic direction agreed by the Board.

Notwithstanding the detail or extent of performance delivery against the objectives, an individual's eligibility for a GPSP award requires confirmation of adherence to HSBC Values which acts in effect as a gating mechanism to GPSP participation. Within the GPSP, the weighting between financial and non-financial measures in respect of 2012 was set at 60% and 40% respectively.

In aggregate in respect of the objectives set for 2012, and in light of the significance of the legal and regulatory fines and penalties incurred in 2012, an overall performance outcome of 40% (2011: 50%) of the scorecard was judged to have been achieved; this outcome applies to all eligible participants in the GPSP. A summary of the assessment and rationale for the conclusions is set out below. Figures in parentheses reflect the available opportunity under the GPSP.

Measure	Long-term target range	Weighting	Actual 2012 performance	Outcome
Return on equity	12% – 15%	15%	8.4% <sup>1</sup>	0%
Cost efficiency ratio	48% – 52%	15%	62.8% <sup>1</sup>	0%
Capital strength	> 10%	15%	12.3% <sup>1</sup>	15.0%
Dividends (payout ratio)	40% – 60%	15%	55.4% <sup>1</sup>	15.0%
Strategy	Judgement	20%	Judgement	15.0%
Brand equity	Top 3 rating and improve US\$b value	5%	Top 3 rating but drop in value <sup>2</sup>	0%
Compliance and reputation	Judgement	10%	Not met	0%
People and values	Judgement	5%	Judgement	3.75%
Performance outcome		100%		48.75%
Committee discretion				40.00%

<sup>1</sup> As reported in the *Annual Report and Accounts 2012*.

<sup>2</sup> Based on results from *The Brand Finance® Banking 500 2013* survey.

*Financial (60% weighting – achieved 30%)*

The opportunity of 60% was equally split in 2012 between Capital Strength, Dividend Progression, Return on Equity and Cost Efficiency Ratio.

While the annual assessment looked at point in time achievement of the same performance elements, under the long-term plan consideration was given to progress made towards stated targets where these had not been met in the short term and to the sustainability of positive short-term performance.

With regard to Capital Strength, the Committee considered favourably the steps taken to meet the Basel III targets in the accelerated timetable being required by the Group's lead regulator. In addition to achieved and planned operating profit generation, the Committee noted favourably the extensive capital generated from business disposals, both from gains realised on sale and from release of risk-weighted assets. Further support for a positive view of performance accrued from actions noted as having been taken to reduce the capital drag from legacy assets and exit portfolios and from steps being taken to mitigate the impact of the more onerous capital requirements arising from regulatory changes yet to take effect. Having reviewed these factors the Committee awarded the full opportunity (15%).

Summary Directors' Remuneration Report (*continued*)

On Dividend Progression, the Committee noted favourably the capacity to maintain a progressive policy, subject to performance, reflected in the Group's capital position, its distributable reserves, its cash position and its planning assumptions. The Committee also noted external commentary on dividend paying capacity and regulatory interactions around the Group's capital position. Having considered these factors the Committee awarded the full opportunity (15%).

As noted in the assessment of the annual performance awards, the Group has not yet reached its target Return on Equity of 12-15%. The Committee deliberated on the benefits arising from the considerable restructuring and reshaping of the business which has been undertaken under the Group's Six Filters framework, the delivery of sustainable cost savings ahead of target, the growth being achieved from investment in faster growing markets and the progress made in run-off of the exit portfolios and in reducing legacy underperforming assets. The Committee also reflected on the additional costs that would be incurred and revenues foregone from the programme of strengthening controls and compliance which is under way and from applying global standards in all markets. There was also note made of the continuing uncertainties from an incomplete regulatory reform agenda, from contingent legal risks and from the continuing significant customer redress costs from legacy activities being borne. As a consequence the Committee felt unable to make any award under this opportunity (15%).

Similarly under the Cost Efficiency Ratio (CER) element of the scorecard, despite good progress on sustainable cost savings the CER remains well above the target range of 48-52%. The Committee noted that a major element of the underperformance relates to legal and regulatory fines and penalties and customer redress costs which it cannot view as non-recurring. As a consequence the Committee judged that no award could be made under this opportunity (15%).

*Non-financial (40% weighting – achieved 18.75%)*

Half the opportunity in this section related to the execution of strategic priorities laid down by the Board (20%). In assessing performance, the Committee noted but looked beyond the short-term deliverables of targeted disposals and investments to review the frameworks being established to improve capital deployment, establish and enforce Global Standards, improve cost efficiency while maintaining strong operational and risk controls and enhance global business co-operation and integration. The Committee concluded that it would be an appropriate reflection of management achievement to award 75% of the available opportunity, namely 15%.

A separate but connected appraisal was made of the human aspect of long-term strategy delivery where the Committee looked at recruitment of key personnel to fill critical roles, succession planning, values training and enforcement and the retention, motivation and collegiality of the senior management team in what had been a stressed environment. Once again the Committee awarded 75% of the available opportunity of 5%, adding 3.75% to the scorecard.

With regard to Compliance and Reputation (10%) given the legal and regulatory fines and penalties incurred in 2012 and the continuation of significant further customer redress costs in the UK, the Committee concluded no award could be contemplated.

This conclusion was followed through when assessing Brand Equity (5%) which technically scored 50% of the available opportunity as HSBC maintained a top three ranking in its peer group. The Committee used its discretion to reduce this award to nil in light of the reputational damage incurred from the US legal and regulatory fines and penalties.

This performance assessment resulted in an overall score of 48.75%. Notwithstanding this, taking into account the significance of the legal and regulatory fines and penalties incurred in 2012, the Committee determined that the initial performance outcome should be reduced further to give a final performance outcome for 2012 of 40%.

**Contributions and allowances in lieu of pension entitlements**

D J Flint received an allowance of 50% of annual basic salary in lieu of personal pension arrangements. The allowance for 2012 amounted to £750,000.

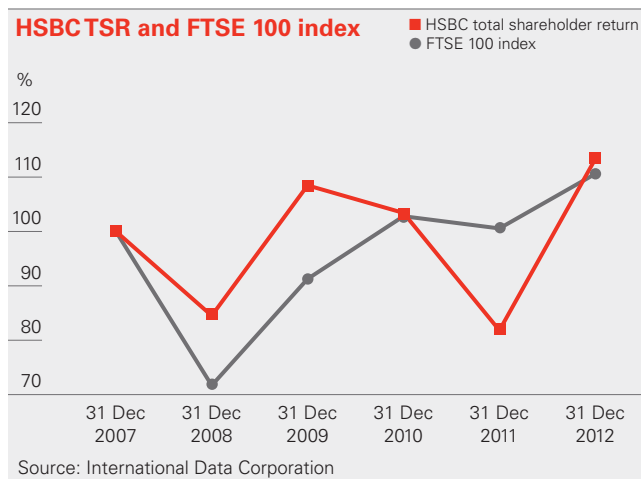
A A Flockhart retired as an executive Director on 30 April 2012 and until that date received employer contributions of 1.8% of basic salary into a pension plan and an allowance of 48.2% of basic salary. The employer contributions and the allowance for 1 January 2012 to 30 April 2012 amounted to £162,500.

ST Gulliver received employer contributions of 4% of basic salary into a personal pension plan and an allowance of 46% of basic salary from 1 January 2012 to 31 March 2012. From 1 April 2012, ST Gulliver received an allowance of 50% of basic salary in lieu of personal pension arrangements. The employer contributions and the allowance for the whole of 2012 amounted to £625,000.

I J Mackay received an allowance of 50% of annual basic salary in lieu of personal pension arrangements. The allowance for 2012 amounted to £350,000.

**Total shareholder return (TSR) chart**

Pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graph below shows the TSR performance against the FTSE 100 index for the five-year period ended 31 December 2012. The FTSE 100 index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.



## Summary Directors' Remuneration Report (continued)

**Service contracts and exit payments**

Our policy is to employ executive Directors on one-year rolling contracts although longer initial terms may be approved by the Committee if considered appropriate. The Committee will, consistent with the best interests of the Group, seek to minimise termination payments.

Director	Contract date (rolling)	Notice period (Director & HSBC)	Compensation on termination by the company without notice or cause
D J Flint	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits.
A A Flockhart <sup>1</sup>	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.
ST Gulliver <sup>2</sup>	10 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.
I J Mackay	4 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.

1 Service contract terminated on 30 April 2012, the date of retirement as an executive Director.

2 The other benefits as part of the payment in lieu of notice do not include the accommodation and car provided in Hong Kong.

**Exit payments made in year**

A A Flockhart retired for health reasons as an executive of the Group and from his position as Chairman of Europe, Middle East, Africa, Latin America, Commercial Banking on 30 April 2012. A A Flockhart remained on the Board up to 31 July 2012 in a non-executive Director capacity. Upon retirement on 30 April 2012, A A Flockhart received no compensation for loss of office other than contractual retirement benefits and was granted good leaver status on his unvested deferred cash and share awards as per the HSBC Share Plan rules. Subject to the terms of the Plan, the awards will vest in line with the vesting schedule at time of grant.

**Share ownership guidelines**

To ensure appropriate alignment with our shareholders, we operate a formal share ownership policy, expressed as a number of shares, for executive Directors and Group Managing Directors. The Committee considers that material share ownership by executives creates a community of interest between senior management and shareholders.

Under the existing guidelines, the shareholding is expected to be achieved within five years of the executive's appointment. All executive Directors exceed the expected holdings. Shareholding requirements for the Group executive Directors and Group Managing Directors are set out below. The Directors' shareholdings at 31 December 2012 are also set out below. There are no shareholding requirements for non-executive Directors.

	At 31 December 2012 (or date of retirement)					
	Shareholding requirement (number)	Shares awarded subject to deferral			Total shareholding <sup>3</sup> (number)	Estimated value £000
		Shares legally owned <sup>1</sup>	without performance conditions <sup>2</sup>	with performance conditions		
<b>Executive Directors</b>						
D J Flint	400,000	313,326	211,269	–	524,595	3,394
A A Flockhart <sup>4</sup>	200,000	978,077 <sup>4</sup>	568,973 <sup>4</sup>	–	1,547,050 <sup>4</sup>	10,008 <sup>5</sup>
ST Gulliver	600,000	2,730,477	2,448,515	–	5,178,992	33,503
I J Mackay	200,000	118,813	417,392	–	536,205	3,469
Group Managing Directors <sup>6</sup>	125,000	n/a	n/a	n/a	n/a	n/a
<b>Non-executive Directors</b>						
J D Coombe	n/a	22,387	n/a	n/a	22,387	145
R A Fairhead	n/a	21,300	n/a	n/a	21,300	138
W S H Laidlaw	n/a	32,252	n/a	n/a	32,252	209
J P Lipsky	n/a	15,000 <sup>7</sup>	n/a	n/a	15,000 <sup>7</sup>	97 <sup>8</sup>
G Morgan	n/a	84,347 <sup>9</sup>	n/a	n/a	84,347 <sup>9</sup>	546 <sup>10</sup>
Sir Simon Robertson	n/a	9,486	n/a	n/a	9,486	61
J L Thornton	n/a	10,250 <sup>11</sup>	n/a	n/a	10,250 <sup>11</sup>	66 <sup>8</sup>
Sir Brian Williamson	n/a	40,164 <sup>9</sup>	n/a	n/a	40,164 <sup>9</sup>	260 <sup>10</sup>

1 Includes interests held as beneficial owner and interests held by connected persons and excludes interests held non-beneficially as trustee.

2 Includes GPSP awards which are made following an assessment of performance over the prior year but are then awarded subject to a five-year vesting period.

3 For the purposes of our shareholding guidelines, unvested awards of Restricted Shares and GPSP awards are included.

4 Interests at 31 July 2012, the date of retirement as a Director.

5 Estimated value at 31 July 2012, the date of retirement as a Director.

6 All of the Group Managing Directors except one (who was appointed a Group Managing Director during 2012 and is therefore within the five years permitted to achieve the expected holding) exceed the expected holdings.

7 Interest in 3,000 listed American Depositary Shares (ADS), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

8 The ADS closing price on 31 December 2012 on the New York Stock Exchange was US\$53.07.

9 Interests at 25 May 2012, the date of retirement as a Director.

10 Estimated value at 25 May 2012, the date of retirement as a Director.

11 Interest of spouse in 2,050 listed ADS.

## Summary Directors' Remuneration Report (continued)

The Committee monitors compliance with the share ownership guidelines annually. The Committee has full discretion in determining any penalties in cases of non-compliance, which could include a reduction of future awards of GPSP and/or an increase in the proportion of the annual variable pay that is deferred into shares.

**Additional disclosures**

The following disclosures are required under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and by the FSA.

The following table shows the 2012 total remuneration of the Group Chairman and executive Directors of HSBC Holdings with annual incentives disclosed on a 2012 performance year basis, pursuant to the UK Listing Rules. Explanations of the constituent parts of the incentives calculated pursuant to the UK Companies Act 2006 and the UK Listing Rules are given in footnotes 4 and 5, respectively.

*Directors' remuneration (Audited)*

	D J Flint		A A Flockhart <sup>1</sup>		ST Gulliver		I J Mackay	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Salary, allowances and benefits in kind	2,355	2,348	564	1,578	2,470	2,043	1,121	1,427
Annual incentive <sup>2</sup>	–	–	–	1,926	1,950	2,156	1,348	1,086
Total remuneration	2,355	2,348	564	3,504	4,420	4,199	2,469	2,513
US\$000								
Total remuneration	3,732 <sup>3</sup>	3,763	894	5,616	7,004	6,729	3,913	4,027

**Emoluments table**

The following table shows the 2012 emoluments of the Group Chairman and executive Directors of HSBC Holdings, with annual incentives disclosed on an actual paid basis, pursuant to section 421 of the UK Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

*Directors' emoluments (Audited)*

	D J Flint		A A Flockhart <sup>1</sup>		ST Gulliver		I J Mackay	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Salary	1,500	1,500	325	975	1,250	1,250	700	700
Allowances <sup>4</sup>	750	750	207	366	613	527	350	364
Benefits in kind <sup>5</sup>	105	98	32	237	607	266	71	363
Prior years deferred annual incentive now released <sup>6</sup>	1,364	1,054	218	857	5,648	3,697	275	12
Current year non-deferred annual incentive <sup>7</sup>	–	–	–	770	780	862	539	434
Total emoluments	3,719	3,402	782	3,205	8,898	6,602	1,935	1,873
US\$000								
Total emoluments	5,893	5,452	1,239	5,136	14,100	10,581	3,066	3,002

- Retired as an executive Director on 30 April 2012.
- The annual incentive for 2012 comprises the deferred and non-deferred annual incentives.
- The reduction in Total Remuneration in US\$ between 2012 and 2011 is due to foreign exchange movements.
- Allowances include an executive allowance paid to fund personal pension arrangements.
- Benefits in kind include provision of medical insurance, other insurance cover, tax return preparation and travel assistance. ST Gulliver is also provided with HSBC-owned accommodation whilst in Hong Kong. In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the taxable rental value of the property is shown for the whole period notwithstanding that it is only occupied when ST Gulliver is in Hong Kong.
- Where applicable, comprise, subject to the rules of the respective share plans: (i) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares will vest on 12 March 2013 arising from the 2011 annual incentive awarded in March 2012 that was partly deferred into awards of HSBC Holdings Restricted Shares; (ii) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares that will vest on 4 March 2013 arising from the 2010 annual incentive awarded in March 2011 that was partly deferred into awards of HSBC Holdings Restricted Shares; (iii) the estimated monetary value of the remainder of the award of HSBC Holdings Restricted Shares that will vest on 5 March 2013 arising from the 2009 annual incentive awarded in March 2010 that was fully deferred into awards of HSBC Restricted Shares; and (iv) 33% of the deferred cash award that will vest on 15 March 2013 arising from the 2010 annual incentive awarded in March 2011.
- Comprises 40% of the annual incentive in respect of the 2012 performance year that is non-deferred. The non-deferred incentive is payable in HSBC Holdings Restricted Shares, 50% of which are subject to a six-month retention period.

**Non-executive Directors' fees**

Non-executive Directors' fees are regularly reviewed and compared with other large international companies of comparable complexity. The current fee, which was approved by shareholders in 2011, is £95,000 per annum.

A fee of £45,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees:

*Board Committee annual fees*

	Chairman £000	Member £000	Number of meetings held during 2012
Group Audit Committee	50	30	5
Group Risk Committee	50	30	7
Group Remuneration Committee	50	30	8
Financial System Vulnerabilities Committee <sup>1</sup>	50	30	–
Nomination Committee	40	25	4
Corporate Sustainability Committee	40	25	4

- Established on 18 January 2013.

## Summary Directors' Remuneration Report (continued)

Fees paid to non-executive Directors  
(Audited)

	2012 £000	2011 £000
S A Catz	95	95
L M L Cha <sup>1</sup>	548	465
M K T Cheung <sup>2</sup>	166	165
J D Coombe	205	205
J Faber <sup>3</sup>	104	–
R A Fairhead	200	200
A A Flockhart <sup>4</sup>	70	–
J W J Hughes-Hallett	138	150
W S H Laidlaw	125	125
J P Lipsky <sup>3</sup>	119	–
J R Lomax	155	155
G Morgan <sup>5</sup>	50	125
N R N Murthy <sup>6</sup>	135	135
Sir Simon Robertson	180	166
J L Thornton <sup>7</sup>	1,092	1,081
Sir Brian Williamson <sup>5</sup>	48	120
Total <sup>8</sup>	3,430	3,187
Total (US\$000) <sup>8</sup>	5,435	5,108

- Includes fees as non-executive Director and Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited and a member of its nomination committee.
- Includes fees as non-executive Director and member of the audit committee of Hang Seng Bank Limited.
- Appointed on 1 March 2012.
- A non-executive Director from 1 May to 31 July 2012. Includes fees as a non-executive Director and Chairman of HSBC Bank plc and a non-executive Director of HSBC Bank Middle East Limited from 1 May to 31 July 2012.
- Retired on 25 May 2012.
- Retired on 31 December 2012.
- Includes fees as non-executive Chairman of HSBC North America Holdings Inc.
- Total fees for 2011 and 2012 include the fees of non-executive Directors who retired in that year.

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at Annual General Meetings. Non-executive Directors have no service contract and are not eligible to participate in our share plans. Non-executive Directors' current terms of appointment will expire as follows:

- in 2013, R A Fairhead;
- in 2014, S A Catz, L M L Cha, J D Coombe, J W J Hughes-Hallett and W S H Laidlaw; and
- in 2015, M K T Cheung, J Faber, J P Lipsky, J R Lomax, Sir Simon Robertson and J L Thornton.

Subject to their re-election by shareholders, the terms of appointment of R Fassbind and J B Comey will expire in 2016.

**Other directorships**

Executive Directors, if so authorised by either the Nomination Committee or the Board, may accept appointments as non-executive Directors of suitable companies which are not part of HSBC. Approval will not be given for an executive Director to accept a non-executive directorship of more than one FTSE 100 company nor the chairmanship of such a company. When considering a non-executive appointment, the Nomination Committee or Board will take into account the expected time commitment of such appointment. The time commitment for executive Directors' external appointments will be reviewed as part of the annual Board review. Any remuneration receivable in respect of an external appointment is normally paid to HSBC, unless otherwise approved by the Nomination Committee.

**Share Plans**

At 31 December 2012, the undernamed Directors held options and awards of Restricted Shares under the HSBC Share Plan and the HSBC Share Plan 2011 (including conditional awards of shares under the GPSP) to acquire the number of HSBC Holdings ordinary shares set against their respective names.

**HSBC Holdings savings-related share option plans**

(Audited)

HSBC Holdings ordinary shares

	Dates of award	Exercise price (£)	Exercisable		At 1 Jan 2012	At 31 Dec 2012 (or date of retirement)
			from <sup>1</sup>	until		
D J Flint	25 Apr 2007	6.1760	1 Aug 2012	31 Jan 2013	2,650	2,650
D J Flint	24 Apr 2012	4.4621	1 Aug 2015	31 Jan 2016	–	2,016
A A Flockhart	29 Apr 2009	3.3116	1 Aug 2014	31 Jan 2015	4,529	– <sup>2</sup>
I J Mackay	30 Apr 2008	US\$ 11.8824	1 Aug 2011	31 Jan 2012	1,531	– <sup>3</sup>

The HSBC Holdings savings-related share option plans are all-employee share plans under which eligible employees may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. The plans help align the interests of employees with the creation of shareholder value. The options were awarded for nil consideration and are exercisable at a 20% discount to the average market value of the ordinary shares on the five business days immediately preceding the invitation date. There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. The market value per ordinary share at 31 December 2012 was £6.47. The highest and lowest market values per ordinary share during the year were £6.55 and £4.91. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

- May be advanced to an earlier date in certain circumstances, e.g. retirement.
- Options lapsed on 31 October 2012 following the end of the six-month period following retirement within which employees may exercise options under the HSBC Holdings savings-related share option plans. A A Flockhart retired as an employee on 30 April 2012.
- Option lapsed on 31 January 2012 following the end of the exercise period.

## Summary Directors' Remuneration Report (continued)

**Awards of Restricted Shares**

HSBC Share Plan

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards made during year		Awards vested during year		Awards held at 31 Dec 2012 (or date of retirement) <sup>1</sup>	
			Awards held at 1 Jan 2012	Number	Monetary value £000	Number		Monetary value £000
D J Flint	1 Mar 2010	2011-2013 <sup>2</sup>	<b>220,201</b>	–	–	<b>111,340</b> <sup>3</sup>	<b>617</b>	<b>116,700</b>
	15 Mar 2011	2012-2014 <sup>2</sup>	<b>133,280</b>	–	–	<b>44,516</b> <sup>4</sup>	<b>256</b>	<b>94,569</b>
A A Flockhart <sup>5</sup>	2 Mar 2009	2012	<b>535,162</b>	–	–	<b>541,651</b> <sup>6</sup>	<b>3,028</b>	–
	1 Mar 2010	2011-2013 <sup>2</sup>	<b>212,927</b>	–	–	<b>107,662</b> <sup>3</sup>	<b>596</b>	<b>110,704</b>
ST Gulliver	15 Mar 2011	2012-2014 <sup>2</sup>	<b>86,062</b>	–	–	<b>28,745</b> <sup>4</sup>	<b>165</b>	<b>59,906</b>
	1 Mar 2010	2011-2013 <sup>2</sup>	<b>943,723</b>	–	–	<b>477,174</b> <sup>3</sup>	<b>2,644</b>	<b>500,148</b>
I J Mackay	15 Mar 2011	2012-2014 <sup>2</sup>	<b>825,072</b>	–	–	<b>275,575</b> <sup>4</sup>	<b>1,585</b>	<b>585,436</b>
	2 Mar 2009	2012	<b>104,244</b>	–	–	<b>105,508</b> <sup>6</sup>	<b>590</b>	–
I J Mackay	1 Mar 2010	2011-2013 <sup>2</sup>	<b>41,263</b>	–	–	<b>20,864</b> <sup>3</sup>	<b>116</b>	<b>21,868</b>
	15 Mar 2011	2012-2014 <sup>2</sup>	<b>35,954</b>	–	–	<b>12,008</b> <sup>4</sup>	<b>69</b>	<b>25,513</b>

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The vesting date may be advanced to an earlier date in certain circumstances, e.g. death. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of a beneficial owner.

- 1 Includes additional shares arising from scrip dividends.
- 2 33% of the award vests on each of the first and second anniversaries of the date of the award, with the balance vesting on the third anniversary of the date of the award. In the case of the awards granted on 15 March 2011 the shares (net of tax) are subject to a six-month retention period following each vesting date.
- 3 At the date of vesting, 27 February 2012, the market value per share was £5.54. The market value per share on the date of the award, 1 March 2010, was £6.82.
- 4 At the date of vesting, 15 March 2012, the market value per share was £5.75. The market value per share on the date of the award, 15 March 2011, was £6.46.
- 5 Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends subject to the terms of the Plan.
- 6 At the date of vesting, 5 March 2012, the market value per share was £5.59. The market value per share on the date of the award, 2 March 2009, was £3.99.

**Awards of Restricted Shares**

HSBC Share Plan 2011

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards made during year		Awards vested during year		Awards held at 31 Dec 2012 (or date of retirement) <sup>1</sup>	
			Awards held at 1 Jan 2012	Number	Monetary value £000	Number		Monetary value £000
A A Flockhart <sup>2</sup>	28 Feb 2012 <sup>3</sup>	2012	–	<b>68,941</b>	<b>385</b>	<b>68,941</b>	<b>385</b>	–
	12 Mar 2012 <sup>4</sup>	2013-2015	–	<b>207,546</b>	<b>1,154</b>	–	–	<b>213,044</b>
	12 Mar 2012 <sup>5</sup>	2012	–	<b>69,182</b>	<b>385</b>	<b>69,182</b>	<b>385</b>	–
ST Gulliver	28 Feb 2012 <sup>3</sup>	2012	–	<b>77,167</b>	<b>431</b>	<b>77,167</b>	<b>431</b>	–
	12 Mar 2012 <sup>4</sup>	2013-2015	–	<b>232,312</b>	<b>1,292</b>	–	–	<b>243,078</b>
	12 Mar 2012 <sup>5</sup>	2012	–	<b>77,437</b>	<b>431</b>	<b>77,437</b>	<b>431</b>	–
I J Mackay	28 Feb 2012 <sup>3</sup>	2012	–	<b>38,854</b>	<b>217</b>	<b>38,854</b>	<b>217</b>	–
	12 Mar 2012 <sup>4</sup>	2013-2015	–	<b>116,968</b>	<b>650</b>	–	–	<b>122,390</b>
	12 Mar 2012 <sup>5</sup>	2012	–	<b>38,989</b>	<b>217</b>	<b>38,989</b>	<b>217</b>	–

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The vesting date may be advanced to an earlier date in certain circumstances, for example, death. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of a beneficial owner.

- 1 Includes additional shares arising from scrip dividends.
- 2 Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends subject to the terms of the plan.
- 3 The non-deferred award vested immediately on 28 February 2012. At the date of vesting the market value per share was £5.59.
- 4 At the date of the award, 12 March 2012, the market value per share was £5.56. 50% of these deferred awards are subject to a six-month retention period upon vesting. 33% of the awards vest on each of the first and second anniversaries of the date of the awards, with the balance vesting on the third anniversary of the date of the award.
- 5 The non-deferred award vested immediately on 12 March 2012 and the shares (net of tax) were subject to a six-month retention period. At the date of vesting, the market value per share was £5.56.

## Summary Directors' Remuneration Report (continued)

**Conditional Awards under the GPSP**

HSBC Share Plan 2011

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards made during year <sup>1</sup>			Awards held at 31 Dec 2012 (or date of retirement) <sup>2</sup>
			Awards held at 1 Jan 2012	Number	Monetary value £000	
A A Flockhart <sup>3</sup>	23 Jun 2011	2016	178,373	–	–	185,319
S T Gulliver	23 Jun 2011	2016	392,119	–	–	415,270
	12 Mar 2012	2017	–	673,370	3,744	704,583
I J Mackay	23 Jun 2011	2016	109,626	–	–	116,099
	12 Mar 2012	2017	–	125,695	699	131,522

The GPSP is the long-term incentive plan under the HSBC Share Plan 2011. Vesting of GPSP awards is normally subject to the Director remaining an employee on the vesting date. Any shares (net of tax) which the Director becomes entitled to on the vesting date are subject to a retention requirement until cessation of employment. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as the interests of a beneficial owner.

1 At the date of award, 12 March 2012, the market value per share was £5.56.

2 Includes additional shares arising from scrip dividends.

3 Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends.

**Pensions****Defined Benefit Pension arrangements**

(Audited)

	Accrued annual pension at 31 December 2012 £000	Increase in accrued pension during 2012 £000	Increase in accrued pension during 2012, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2011 <sup>1</sup> £000	Transfer value of accrued pension at 31 December 2012 <sup>1</sup> £000	Increase of transfer value of accrued pension (less personal contributions) in 2012 <sup>1</sup> £000	Transfer value (less personal contributions) at 31 December 2012 relating to increase in accrued pension during 2012, excluding any increase for inflation <sup>1</sup> £000
A A Flockhart <sup>2</sup>	339	32	15	5,638	6,105	467	251

1 The transfer value represents a liability of HSBC's pension fund (the International Staff Retirement Benefits Scheme ('ISRBS')) and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.

2 A A Flockhart ceased accrual of pension in the ISRBS on 30 November 2008 and he has deferred commencement of his pension. The ISRBS retains a liability for a contingent spouse's pension of £140,000 per annum as at 31 December 2012. Although A A Flockhart retired as an executive Director on 30 April 2012, this does not affect his benefits within the ISRBS.

The following table shows unfunded pension payments, in respect of which provision has been made, during 2012 to six former Directors of HSBC Holdings.

The payments in respect of R Delbridge and Sir Brian Pearse were made by HSBC Bank plc as former directors of that bank. The payment in respect of C F W de Croisset was made by HSBC France as a former director of that bank.

**Unfunded pension payments**

(Audited)

	2012 £	2011 £
B H Asher	111,763	106,441
C F W de Croisset	239,423	250,910
R Delbridge	160,754	153,099
Lord Green	42,174	40,946
Sir Brian Pearse	67,036	63,844
Sir William Purves	118,313	112,679
	<b>739,463</b>	<b>727,919</b>

## Summary Directors' Remuneration Report (continued)

**Employee compensation and benefits***(Unaudited)*

Set out below are details of emoluments paid to senior management (being executive Directors and Group Managing Directors of HSBC Holdings) for the year ended 31 December 2012 or for the period of appointment as a Director or Group Managing Director.

**Emoluments of senior management**

	Senior management £000
Basic salaries, allowances and benefits in kind	15,461
Pension contributions	315
Performance-related pay paid or receivable	33,066
Inducements to join paid or receivable	–
Compensation for loss of office	715
Total	49,557
Total (US\$000)	78,531

The aggregate emoluments of senior management for the year ended 31 December 2012 was US\$78,531,390. The emoluments of senior management were within the following bands:

	Number senior management
£0 – £1,000,000	3
£1,000,001 – £2,000,000	1
£2,000,001 – £3,000,000	5
£3,000,001 – £4,000,000	4
£4,000,001 – £5,000,000	1
£7,000,001 – £8,000,000	2

The aggregate amount set aside or accrued to provide pension, retirement or similar for executive Directors and senior management for the year ended 31 December 2012 was US\$499,285.

Set out below are details of remuneration paid to the five individuals whose emoluments were the highest in HSBC (including two executive Directors and two Group Managing Directors of HSBC Holdings), for the year ended 31 December 2012.

**Emoluments of the five highest paid employees**

	5 highest paid employees £000
Basic salaries, allowances and benefits in kind	6,112
Pension contributions	155
Performance-related pay paid or receivable	21,513
Inducements to join paid or receivable	–
Compensation for loss of office	–
Total	27,780
Total (US\$000)	44,022

The emoluments of the five highest paid employees were within the following bands:

	Number of 5 highest paid employees
£3,800,001 – £3,900,000	1
£4,600,001 – £4,700,000	1
£4,800,001 – £4,900,000	1
£7,000,001 – £7,100,000	1
£7,400,001 – £7,500,000	1

Remuneration of eight highest paid senior executives (members of the GMB, but not Directors of HSBC Holdings)

	Employee							
	1 £000	2 £000	3 £000	4 £000	5 £000	6 £000	7 £000	8 £000
<b>Fixed</b>								
Cash based	650	632	650	650	650	650	851	488
Total fixed	650	632	650	650	650	650	851	488
<b>Annual incentive<sup>1</sup></b>								
Cash	955	331	262	340	277	272	227	180
Non-deferred shares <sup>2</sup>	955	331	262	340	277	272	227	180
Deferred cash <sup>3</sup>	1,433	496	393	510	415	407	341	270
Deferred shares <sup>3</sup>	1,433	496	393	510	415	407	341	270
Total annual incentive	4,776	1,654	1,310	1,700	1,384	1,358	1,136	900
<b>Long-term incentive plan (GPSP)</b>								
Deferred shares	1,560	1,517	1,560	1,040	780	780	681	976
Total variable pay	6,336	3,171	2,870	2,740	2,164	2,138	1,817	1,876
Total remuneration	6,986	3,803	3,520	3,390	2,814	2,788	2,668	2,364
US\$000								
Total remuneration	11,070	6,026	5,578	5,372	4,459	4,418	4,228	3,746

1 Annual incentive in respect of performance year 2012.

2 Awards vested, subject to a six month retention period.

3 Awards vest 100% after five years subject to the successful completion of the Deferred Prosecution Agreements and subject to the terms of the Plan.



# Summary Consolidated Income Statement

Year ended 31 December	2012 US\$m	2011 US\$m	2010 US\$m
Interest income	56,702	63,005	58,345
Interest expense	(19,030)	(22,343)	(18,904)
Net interest income	37,672	40,662	39,441
Fee income	20,149	21,497	21,117
Fee expense	(3,719)	(4,337)	(3,762)
Net fee income	16,430	17,160	17,355
Trading income excluding net interest income	4,408	3,283	4,680
Net interest income on trading activities	2,683	3,223	2,530
Net trading income	7,091	6,506	7,210
Changes in fair value of long-term debt issued and related derivatives	(4,327)	4,161	(258)
Net income/(expense) from other financial instruments designated at fair value	2,101	(722)	1,478
Net income/(expense) from financial instruments designated at fair value	(2,226)	3,439	1,220
Gains less losses from financial investments	1,189	907	968
Dividend income	221	149	112
Net earned insurance premiums	13,044	12,872	11,146
Gains on disposal of US branch network, US cards business and Ping An Insurance (Group) Company of China, Limited	7,024	–	–
Other operating income	2,100	1,766	2,562
<b>Total operating income</b>	<b>82,545</b>	<b>83,461</b>	<b>80,014</b>
Net insurance claims incurred and movement in liabilities to policyholders	(14,215)	(11,181)	(11,767)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>68,330</b>	<b>72,280</b>	<b>68,247</b>
Loan impairment charges and other credit risk provisions	(8,311)	(12,127)	(14,039)
<b>Net operating income</b>	<b>60,019</b>	<b>60,153</b>	<b>54,208</b>
Employee compensation and benefits	(20,491)	(21,166)	(19,836)
General and administrative expenses	(19,983)	(17,459)	(15,156)
Depreciation and impairment of property, plant and equipment	(1,484)	(1,570)	(1,713)
Amortisation and impairment of intangible assets	(969)	(1,350)	(983)
<b>Total operating expenses</b>	<b>(42,927)</b>	<b>(41,545)</b>	<b>(37,688)</b>
<b>Operating profit</b>	<b>17,092</b>	<b>18,608</b>	<b>16,520</b>
Share of profit in associates and joint ventures	3,557	3,264	2,517
<b>Profit before tax</b>	<b>20,649</b>	<b>21,872</b>	<b>19,037</b>
Tax expense	(5,315)	(3,928)	(4,846)
<b>Profit for the year</b>	<b>15,334</b>	<b>17,944</b>	<b>14,191</b>
Profit attributable to shareholders of the parent company	14,027	16,797	13,159
Profit attributable to non-controlling interests	1,307	1,147	1,032
	US\$	US\$	US\$
Basic earnings per ordinary share	0.74	0.92	0.73
Diluted earnings per ordinary share	0.74	0.91	0.72

# Summary Consolidated Statement of Comprehensive Income

Year ended 31 December	2012 US\$m	2011 US\$m	2010 US\$m
Profit for the year	15,334	17,944	14,191
<b>Other comprehensive income/(expense)</b>			
Available-for-sale investments	5,070	674	5,835
– fair value gains	6,396	1,279	6,368
– fair value gains transferred to income statement on disposal	(1,872)	(820)	(1,174)
– amounts transferred to the income statement in respect of impairment losses	1,002	583	1,118
– income taxes	(456)	(368)	(477)
Cash flow hedges	109	187	(271)
– fair value gains/(losses)	552	(581)	(178)
– fair value (gains)/losses transferred to income statement	(423)	788	(164)
– income taxes	(20)	(20)	71
Actuarial gains/(losses) on defined benefit plans	(195)	1,009	(61)
– before income taxes	(391)	1,267	(60)
– income taxes	196	(258)	(1)
Share of other comprehensive income/(expense) of associates and joint ventures	533	(710)	107
Exchange differences	1,017	(2,865)	(567)
Income tax attributable to exchange differences	–	165	–
Other comprehensive income for the year, net of tax	6,534	(1,540)	5,043
Total comprehensive income for the year	21,868	16,404	19,234
Total comprehensive income for the year attributable to:			
– shareholders of the parent company	20,455	15,366	18,087
– non-controlling interests	1,413	1,038	1,147
	21,868	16,404	19,234

# Summary Consolidated Balance Sheet

At 31 December	2012 US\$m	2011 US\$m
<b>Assets</b>		
Cash and balances at central banks	141,532	129,902
Items in the course of collection from other banks	7,303	8,208
Hong Kong Government certificates of indebtedness	22,743	20,922
Trading assets	408,811	330,451
Financial assets designated at fair value	33,582	30,856
Derivatives	357,450	346,379
Loans and advances to banks	152,546	180,987
Loans and advances to customers	997,623	940,429
Financial investments	421,101	400,044
Assets held for sale	19,269	39,558
Other assets	54,716	48,699
Current tax assets	515	1,061
Prepayments and accrued income	9,502	10,059
Interests in associates and joint ventures	17,834	20,399
Goodwill and intangible assets	29,853	29,034
Property, plant and equipment	10,588	10,865
Deferred tax assets	7,570	7,726
<b>Total assets</b>	<b>2,692,538</b>	<b>2,555,579</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Hong Kong currency notes in circulation	22,742	20,922
Deposits by banks	107,429	112,822
Customer accounts	1,340,014	1,253,925
Items in the course of transmission to other banks	7,138	8,745
Trading liabilities	304,563	265,192
Financial liabilities designated at fair value	87,720	85,724
Derivatives	358,886	345,380
Debt securities in issue	119,461	131,013
Liabilities of disposal groups held for sale	5,018	22,200
Other liabilities	33,862	27,967
Current tax liabilities	1,452	2,117
Liabilities under insurance contracts	68,195	61,259
Accruals and deferred income	13,184	13,106
Provisions	5,252	3,324
Deferred tax liabilities	1,109	1,518
Retirement benefit liabilities	3,905	3,666
Subordinated liabilities	29,479	30,606
<b>Total liabilities</b>	<b>2,509,409</b>	<b>2,389,486</b>
<b>Equity</b>		
Called up share capital	9,238	8,934
Share premium account	10,084	8,457
Other equity instruments	5,851	5,851
Other reserves	29,722	23,615
Retained earnings	120,347	111,868
<b>Total shareholders' equity</b>	<b>175,242</b>	<b>158,725</b>
Non-controlling interests	7,887	7,368
<b>Total equity</b>	<b>183,129</b>	<b>166,093</b>
<b>Total equity and liabilities</b>	<b>2,692,538</b>	<b>2,555,579</b>

**Douglas Flint**

Group Chairman

# Notes on the Summary Financial Statement

## 1. Basis of preparation

### Summary Financial Statement

This Summary Financial Statement is a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2012*. It is not the Group's statutory accounts. It does not contain the full text of the Directors' Report or sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as would be provided by the full *Annual Report and Accounts 2012*. The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings included in the *Annual Report and Accounts 2012* have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2012, there were no unendorsed standards effective for the year ended 31 December 2012 affecting these consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC's financial statements for the year ended 31 December 2012 are prepared in accordance with IFRSs as issued by the IASB.

## 2. Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings, computed in accordance with the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, were:

	2012 US\$000	2011 US\$000	2010 US\$000
Fees	5,435	5,108	3,597
Salaries and other emoluments	10,316	12,906	12,841
Annual incentives	13,983	12,516	14,294
Total	29,734	30,530	30,732
Vesting of long-term incentive awards	5,733	2,596	8,523

In addition, there were payments under retirement benefit agreements with former Directors of US\$1,171,796 (2011: US\$1,166,580). The provision at 31 December 2012 in respect of unfunded pension obligations to former Directors amounted to US\$19,285,971 (2011: US\$18,006,894).

During the year, aggregate contributions to pension schemes in respect of Directors were US\$29,078 (2011: US\$373,310). Discretionary annual incentives for Directors are based on a combination of individual and corporate performance and are determined by the Group Remuneration Committee. Details of Directors' remuneration, share options and awards under the HSBC Share Plan and HSBC Share Plan 2011 are included in the 'Summary Directors' Remuneration Report' on pages 42 to 54.

## 3. Related party transactions

Particulars of advances (loans and quasi-loans), credits and guarantees entered into by subsidiaries of HSBC Holdings during 2012 with Directors, disclosed pursuant to section 413 of the Companies Act 2006, are shown below:

	At 31 December	
	2012 US\$m	2011 US\$m
Advances and credits	7	8

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The disclosure of the year-end balance and the highest amounts outstanding during the year in the table below is considered to be the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

	2012		2011	
	Balance at 31 December US\$m	Highest amounts outstanding during year US\$m	Balance at 31 December US\$m	Highest amounts outstanding during year US\$m
<b>Key management personnel<sup>1</sup></b>				
Advances and credits	153	242	112	120
Guarantees	8	12	12	12

1 Includes key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

Some of the transactions were connected transactions, as defined by the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited but were exempt from any disclosure requirements under the provisions of those rules. The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Notes on the Summary Financial Statement (*continued*)**4. Earnings per share**

Basic and diluted earnings per ordinary share are calculated pursuant to the requirements of International Accounting Standard 33. For the year ended 31 December 2012, basic earnings per share was US\$0.74 (2011: US\$0.92; 2010: US\$0.73) and diluted earnings per share was US\$0.74 (2011: US\$0.91; 2010: US\$0.72).

**5. Called up share capital****Issued and fully paid**

	At 31 December	
	2012 US\$m	2011 US\$m
HSBC Holdings ordinary shares <sup>1</sup>	9,238	8,934

HSBC Holdings ordinary shares of US\$0.50 each	Number	US\$m
At 1 January 2012	17,868,085,646	8,934
Shares issued under HSBC employee share plans	238,587,766	119
Shares issued in lieu of dividends	369,335,252	185
At 31 December 2012	18,476,008,664	9,238
At 1 January 2011	17,686,155,902	8,843
Shares issued under HSBC employee share plans	11,354,577	6
Shares issued in lieu of dividends	170,575,167	85
At 31 December 2011	17,868,085,646	8,934

HSBC Holdings non-cumulative preference shares of US\$0.01 each	Number	US\$m
At 1 January 2012 and 31 December 2012 <sup>2</sup>	1,450,000	–
At 1 January 2011 and 31 December 2011	1,450,000	–

1 All HSBC Holdings ordinary shares in issue confer identical rights in respect of capital, dividends, voting and otherwise.

2 Included in the capital base of HSBC as tier 1 capital in accordance with the rules and guidance in the FSAs *General Prudential Sourcebook*.

**HSBC Holdings non-cumulative preference shares of £0.01 each**

The one non-cumulative sterling preference share of £0.01 in issue ('sterling preference share') has been in issue since 29 December 2010 and is held by a subsidiary of HSBC Holdings. Dividends on the sterling preference share are paid quarterly at the sole and absolute discretion of the Board. The sterling preference share carries no rights to conversion into ordinary shares of HSBC Holdings and no rights to attend and vote at general meetings of shareholders of HSBC Holdings. HSBC Holdings may redeem it in whole at any time at the option of the Company.

**6. Events after the balance sheet date**

On 7 January 2013, Industrial Bank Co., Ltd. ('Industrial Bank'), a principal associate, completed a private placement of additional share capital to a number of third parties, thereby diluting the Group's equity holding from 12.8% to 10.9%. As a result of this and other factors, the Group considers it is no longer in a position to exercise significant influence over Industrial Bank and ceased to account for the investment as an associate from that date, giving rise to an accounting gain of HK\$9.5 billion or US\$1.2 billion. Thereafter, the holding is recognised as an available-for-sale financial investment.

The disposal of the second tranche of shares in Ping An was completed on 6 February 2013. A description of this disposal is provided in Note 26 in the *Annual Report and Accounts 2012*.

On 19 February 2013, we announced an agreement to sell HSBC Bank Panama S.A., recorded as part of our Latin America segment, to Bancolombia S.A. for a total consideration of US\$2.1 billion in cash. The transaction is subject to regulatory approvals and other conditions and is expected to complete by the third quarter of 2013. The assets and liabilities of these operations were not classified as held for sale at 31 December 2012 as the sale was not yet considered highly probable at that time.

On 28 February 2013, HSBC Bank USA entered into an agreement with the Office of the Comptroller of the Currency, and HSBC Finance and HSBC North America Holdings Inc. entered into an agreement with the Federal Reserve Board in relation to the Independent Foreclosure Review. Additional information is provided in Note 43 in the *Annual Report and Accounts 2012*.

A fourth interim dividend for 2012 of US\$0.18 per ordinary share (a distribution of approximately US\$3,327 million) was declared by the Directors after 31 December 2012.

The *Annual Report and Accounts 2012* was approved by the Board of Directors on 4 March 2013 and authorised for issue.

Notes on the Summary Financial Statement (*continued*)**7. Foreign currency amounts**

The sterling and Hong Kong dollar equivalent figures in the consolidated income statement and balance sheet are for information only. These are translated at the average rate for the period for the income statement and the closing rate for the balance sheet as follows:

	Year ended 31 December	
	2012	2011
Closing: HK\$/US\$	<b>7.750</b>	7.768
£/US\$	<b>0.619</b>	0.646
Average: HK\$/US\$	<b>7.757</b>	7.785
£/US\$	<b>0.631</b>	0.624

**8. Other information**

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2012*. It is not the Group's statutory accounts. It does not contain the full text of the Directors' Report and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as would be provided by the full *Annual Report and Accounts 2012*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2012* from Global Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Global Publishing Services, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts 2012* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on page 64.

The *Annual Report and Accounts 2012* may be viewed on our website: [www.hsbc.com](http://www.hsbc.com).

**9. Approval of the Summary Financial Statement**

This Summary Financial Statement was approved by the Board of Directors and signed on its behalf by D J Flint.

# Independent Auditor's Statement to the Members of HSBC Holdings plc

We have examined the summary financial statement for the year ended 31 December 2012 set out on pages 34 to 60.

This statement is made solely to the company's members, as a body, in accordance with section 428 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this statement, or for the opinions we have formed.

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## Respective responsibilities of Directors and auditor

The Directors are responsible for preparing the *Annual Review 2012* in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the *Annual Review 2012* with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the *Annual Review 2012* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

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## Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 *The auditor's statement on the summary financial statement in the United Kingdom* issued by the Auditing Practices Board. Our report on the Group's full annual financial statements describes the basis of our opinions on those financial statements, the Directors' Report and the Directors' Remuneration Report.

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## Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2012 and complies with the applicable requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (4 March 2013) and the date of this statement.

## G Bainbridge for and on behalf of KPMG Audit Plc, Statutory Auditor

*Chartered Accountants*

London, England

14 March 2013

# Shareholder Information

## Fourth interim dividend for 2012

The Directors have declared a fourth interim dividend for 2012 of US\$0.18 per ordinary share. Information on the scrip dividend scheme and currencies in which shareholders may elect to have the cash dividend paid will be sent to shareholders on or about 3 April 2013. The timetable for the dividend is:

Announcement	4 March 2013
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	20 March 2013
ADSs quoted ex-dividend in New York	20 March 2013
Record date in Hong Kong	21 March 2013
Record date in London, New York, Paris and Bermuda <sup>1</sup>	22 March 2013
Mailing of <i>Annual Report and Accounts 2012</i> and/or <i>Annual Review 2012</i> , Notice of Annual General Meeting and dividend documentation	3 April 2013
Final date for receipt by registrars of forms of election, Investor Centre electronic instructions and revocations of standing instructions for scrip dividends	25 April 2013
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	29 April 2013
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	8 May 2013

<sup>1</sup> Removals to and from the Overseas Branch register of shareholders in Hong Kong will not be permitted on this date.

## Interim dividends for 2013

The Board has adopted a policy of paying quarterly interim dividends on the ordinary shares. Under this policy it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2013 will be US\$0.10 per ordinary share. The proposed timetables for the dividends in respect of 2013 are:

	Interim dividends for 2013			
	First	Second	Third	Fourth
Announcement	7 May 2013	5 August 2013	7 October 2013	24 February 2014
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	22 May 2013	21 August 2013	23 October 2013	12 March 2014
ADSs quoted ex-dividend in New York	22 May 2013	21 August 2013	23 October 2013	12 March 2014
Record date in Hong Kong	23 May 2013	22 August 2013	24 October 2013	13 March 2014
Record date in London, New York, Paris and Bermuda <sup>1</sup>	24 May 2013	23 August 2013	25 October 2013	14 March 2014
Payment date	11 July 2013	9 October 2013	11 December 2013	30 April 2014

<sup>1</sup> Removals to and from the Overseas Branch Register of shareholders in Hong Kong will not be permitted on these dates.

Dividends are declared in US dollars and, at the election of the shareholder, paid in cash in one of, or in a combination of, US dollars, sterling and Hong Kong dollars or, subject to the Board's determination that a scrip dividend is to be offered in respect of that dividend, may be satisfied in whole or in part by the issue of new shares in lieu of a cash dividend.

## Interim Management Statements and Interim Results

Interim Management Statements are expected to be issued on or around 7 May 2013 and 4 November 2013. The Interim Results for the six months to 30 June 2013 are expected to be issued on 5 August 2013.

## Shareholder enquiries and communications

### Enquiries

Any enquiries relating to shareholdings on the share register, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrars at the address on page 64. The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

If you have been nominated to receive general shareholder communications directly from HSBC Holdings, it is important to remember that your main contact for all matters relating to your investment remains the registered shareholder, or perhaps custodian or broker, who administers the investment on your behalf. Therefore any changes or queries relating to your personal details and holding (including any administration thereof) must continue to be directed to your existing contact at your investment manager or custodian. HSBC Holdings cannot guarantee dealing with matters directed to it in error.

Further copies of this *Annual Review 2012* may be obtained by writing to the following departments:

#### For those in Europe, the Middle East and Africa:

Global Communications  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
United Kingdom

#### For those in Asia-Pacific:

Communications (Asia)  
The Hongkong and Shanghai  
Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

#### For those in the Americas:

Global Publishing Services  
HSBC – North America  
26525 N Riverwoods Boulevard  
Mettawa, Illinois 60045  
USA



## Shareholder Information (continued)

### Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive a notification of their availability on HSBC's website. To receive future notifications of the availability of a corporate communication on HSBC's website by email, or revoke or amend an instruction to receive such notifications by email, go to [www.hsbc.com/ecomms](http://www.hsbc.com/ecomms). If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy of it, or if you would like to receive future corporate communications in printed form, please write or send an email to the appropriate Registrars at the address given above. Printed copies will be provided without charge.

### Chinese translation

A Chinese translation of this *Annual Review* is available upon request after 3 April 2013 from the Registrars:

Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom
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Please also contact the Registrars if you wish to receive Chinese translations of future documents or if you have received a Chinese translation of this document and do not wish to receive such translations in future.

《年度回顧》備有中譯本，各界人士可於 2013 年 4 月 3 日之後，向股份登記處索閱。

閣下如欲於日後收取相關文件的中譯本，或已收到本文件的中譯本但不希望繼續收取有關譯本，均請聯絡股份登記處。

### French translation

A French translation of this *Annual Review* is available upon request from:

La traduction française *Bilan d'activité* est disponible sur demande:

Direction de la Communication  
HSBC France  
103 avenue des Champs Elysées  
75419 Paris Cedex 08  
France

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### Investor relations

Enquiries relating to HSBC's strategy or operations may be directed to:

Manager Investor Relations HSBC Holdings plc 8 Canada Square London E14 5HQ United Kingdom Telephone: 44 020 7991 8041 Facsimile: 44 0845 587 0225 Email: <a href="mailto:investorrelations@hsbc.com">investorrelations@hsbc.com</a>	SVP Investor Relations HSBC North America Holdings Inc. 26525 N Riverwoods Boulevard Mettawa, Illinois 60045 USA 1 224 880 8008 1 847 383 3331 <a href="mailto:investor.relations.usa@us.hsbc.com">investor.relations.usa@us.hsbc.com</a>	Head of Investor Relations, Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong 852 2822 4908 852 3418 4469 <a href="mailto:investorrelations@hsbc.com.hk">investorrelations@hsbc.com.hk</a>
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# Contacts

## HSBC Holdings plc

*Incorporated in England on 1 January 1959 with limited liability under the UK Companies Act  
Registered in England: number 617987*

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## Registrars

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Bristol BS99 6ZZ  
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Telephone (International): 1 201 680 6825  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Web: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

*Paying Agent (France)*  
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Web: [www.hsbc.fr](http://www.hsbc.fr)

## Stockbrokers

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Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
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Credit Suisse Securities (Europe) Limited  
1 Cabot Square  
London E14 4QT  
United Kingdom

HSBC Bank plc  
8 Canada Square  
London E14 5HQ  
United Kingdom

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Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2012*, or the *Annual Report and Accounts 2012* as included on Form 20-F, from Global Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Global Publishing Services, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France.

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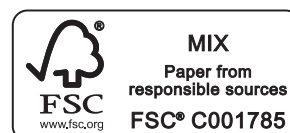
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