HSBC Holdings plc

Directors' Remuneration Policy Supplement 2017

HSBC

Directors' remuneration policy

This supplement sets out our new remuneration policy for executive and non-executive Directors that was approved by our shareholders at the Annual General Meeting ('AGM') on 22 April 2016. It is intended that this policy will be applied for three years to the end of the AGM in 2019. Our remuneration policy supports the achievement of our strategic objectives through balancing reward for both short-term and long-term sustainable performance. Our strategy is designed to reward success, and to align employees' remuneration with our HSBC Values and risk outcomes. For our most senior employees, the majority of their reward is deferred, subject to malus, and clawback.

The policy will apply in full to all executive Directors with the exception of Douglas Flint, who is not eligible for a fixed pay allowance or variable pay awards.

Remuneration policy – executive Directors

Purpose and link to strategy	Operation	Maximum opportunity
Fixed pay	*These elements of remuneration are not subject to performance metrics.*	
Base salary		
To attract and retain key talent by being market competitive and rewarding ongoing contribution to role.	Base salary reflects the individual's role, experience and responsibility. The Committee reviews and approves changes within the context of local requirements and market competitiveness. Base salaries are benchmarked on an annual basis against relevant comparator groups. Base salaries may be reviewed more frequently at the discretion of the Committee.	The annual base salary for each executive Director is set out in the Directors' Remuneration Report. Other than in exceptional circumstances, the base salary for the current executive Directors will not increase by more than 15% above the current levels in total during the duration of this policy.
Fixed pay allowance ('FPA')		
To deliver fixed pay required to reflect the role, skills and experience of the Directors and to maintain a competitive total remuneration package for the retention of key talent.	Fixed pay allowances are non-pensionable and will be granted in shares that vest immediately on a quarterly basis or at any other frequency that the Committee deems appropriate. These shares (net of shares sold to cover any income tax and social security) will be subject to a retention period. Shares will be released annually on a pro rata basis over five years, starting from the March immediately following the end of the financial year in which the shares are granted in respect of. Dividends will be paid on the vested shares held during the retention period. The Committee retains the discretion to pay the fixed pay allowance in cash if required to do so by regulation.	Fixed pay allowances are determined based on the role and responsibility of each individual. The fixed pay allowance for the duration of this policy will be capped at 150% of base salary levels at the start of this policy.
Cash in lieu of pension		
To attract and retain key talent by being market competitive.	Directors receive a cash allowance in lieu of a pension entitlement.	30% of base salary.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Variable pay	*Adhering to the HSBC Values is a prerequisite to be considered for any variable pay. The HSBC Values are key to running the bank on a sound, sustainable basis. Executive Directors have an HSBC Values rating that is considered by the Committee following the financial year-end.*		
Annual incentive			
To drive and reward performance against annual financial, non-financial and personal objectives which are consistent with the strategy and align to shareholder interests.	Awards are discretionary and are generally delivered in the form of shares. On vesting, the shares (net of shares sold to cover any income tax and social security) will be subject to a minimum retention period of at least six months. Awards are subject to clawback for a period of seven-years from the date of award. This may be extended to 10 years in the event of an ongoing internal/regulatory investigation at the end of the seven-year period. The Committee retains the discretion to: • apply a longer retention period; • grant the award partially in cash, as long as at least 50% of the award is in shares; and • defer a portion of the awards, which will be subject to malus during the deferral period. Dividend equivalents will be paid on the vested deferred shares, equal to the dividends paid or payable between the grant and vesting date. These will normally be paid in the form of additional, i.e. scrip, shares. If not permissible under regulatory requirements, the number of shares to be awarded may be based on a share price discounted based on a historical dividend yield.	The maximum opportunity for annual incentive award is up to 215% of base salary. The Committee will assess and judge performance against the targets set to determine the level of achievement. The overall payout of the annual incentive could be between 0% and 100% of the maximum. At threshold performance 25% of the maximum award opportunity will vest and up to 50% will vest for target performance. 100% of the award will pay out for maximum performance. The Committee can reduce (to zero if appropriate) the annual incentive payout based on the outcome of the performance measures, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Company during the performance period.	Performance is measured against an annual scorecard, based on targets set for financial outcomes and non-financial outcomes (including risk-related measures and personal objectives). The scorecards vary by individual. The financial measures will have a weighting of 60% for the Group CEO, 50% for the Group Chief Financial Officer and 25% for the Group CRO. The Committee has the discretion to: • change the overall weighting of the financial and non-financial measures; • vary the measures and their respective weightings within each category. The specific performance measures will be disclosed in the 'Annual report on remuneration' for the relevant year; and • make adjustments to performance targets to reflect significant one-off items that occur during the measurement period. Full and clear disclosure of any such adjustments will be made within the 'Annual report on remuneration' at the end of the performance year, subject to commercial confidentiality.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-term incentive ('LTI')			
To incentivise sustainable long-term performance and long-term alignment with shareholder interests.	Awards are discretionary and are awarded in shares under the HSBC Share Plan 2011, subject to a forward-looking three-year performance period from the start of the financial year in which the awards are granted. At the end of the performance period, the performance outcomes will be used to assess what percentage of the awards will vest. These awards will vest in five equal instalments with the first vesting on or around the third anniversary of the grant and the last instalment vesting on or around the seventh anniversary of the grant date. This is based on the PRA's requirements. On each vesting, the shares (net of shares sold to cover any income tax and social security) will be subject to a minimum retention period of six months if required by regulators. Awards are discretionary and are subject to malus during the vesting period and clawback for a period of seven to 10 years from the date of award. Dividend equivalents will be paid on the vested deferred shares, equal to the dividends paid or payable between the grant and vesting date. These will normally be paid in the form of additional, i.e. scrip, shares. If not permissible under regulatory requirements, the number of shares to be awarded may be based on a share price discounted based on a historical dividend yield. The Committee may adjust and amend awards in accordance with the rules of the HSBC Share Plan 2011.	The maximum opportunity for LTI award is up to 320% of base salary. The Committee will assess and judge performance against the targets set to determine the level of achievement. The overall payout level could be between 0% and 100% of the maximum. At threshold performance 25% of the maximum award opportunity will vest and up to 50% will vest for target performance. 100% of the award will vest for maximum performance. The Committee can reduce (to zero if appropriate) the LTI payout based on the outcome of the performance measures, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Company during the performance period.	The Committee will take into consideration prior performance when assessing the value of the LTI grant. Forward-looking performance is measured against a long-term scorecard with financial outcomes (60% weighting) and non-financial outcome, including risk and strategy-related measures (40% weighting). Relative Total Shareholder Return ('TSR') will have a weighting of one-third of the total financial measures. One-third will be based on achieving return on equity targets and one-third will be based on the attainment of cost-efficiency targets. Performance targets are set annually for each three-year cycle by the Committee. The Committee has the discretion to: • change the overall weighting of the financial and non-financial measures; • vary the measures and their respective weightings within each category. The specific performance measures will be disclosed in the 'Annual report on remuneration' for the relevant year; and • make adjustments to performance targets to reflect significant one-off items that occur during the measurement period. Full and clear disclosure of any such adjustments will be made within the 'Annual report on remuneration', subject to commercial confidentiality.

Purpose and link to strategy	Operation	Maximum opportunity
Other	These elements are not subject to performance metrics.	
Benefits		
To provide benefits in accordance with local market practice.	Benefits take account of local market practice and include, but are not restricted to, the provision of medical insurance, income protection insurance, health assessment, life assurance, club membership, tax return assistance, car benefit (including any tax due on the benefit) and travel assistance. Stuart Gulliver is also provided with accommodation and car benefit in Hong Kong. HSBC pay any tax due on this benefit. Additional benefits may also be provided where an executive is relocated or spends a substantial proportion of his/her time in more than one jurisdiction based on business needs. Such benefits could include, but are not restricted to, airfare, accommodation, shipment, storage, utilities and any tax and social security that may be due in respect of such benefits.	Determined by the nature of the benefit provided. The benefit amount will be disclosed in the Single Figure Table of Remuneration for the relevant year.

Purpose and link to strategy	Operation	Maximum opportunity
Shareholding guidelines		
To ensure appropriate alignment with the interest of our shareholders.	Executive Directors and other senior executives are subject to shareholding guidelines. The shareholding guidelines as a percentage of base salary are: • Group Chairman: 100% • Group Chief Executive: 400% • Group Finance Director: 300% • Group Chief Risk Officer: 300% Individuals are given five years from 2014 or (if later) their appointment to build up the recommended levels of shareholding. The shareholding guideline does not count unvested share-based incentives. The Committee reviews compliance with the shareholding guidelines. The Committee has full discretion in determining any penalties in cases of non-compliance, which could include a reduction of future awards and/or an increase in the proportion of the annual variable pay that is deferred into shares. HSBC operates an anti-hedging policy and executive Directors are required to certify each year that they have not entered into any personal hedging strategies in relation to their holdings of HSBC shares.	N/A
All employee share plans		
To promote share ownership by all employees.	Executive Directors are also entitled to participate in all employee share plans, such as the HSBC Sharesave, on the same basis as all other employees. Under the Sharesave, executive Directors can make monthly savings over a period of three or five years towards the grant of an option over HSBC shares. The option price can be at a discount, currently of up to 20%, on the share price at the start of the savings period.	The number of options determined by maximum savings set by HM Revenue and Customs per month, currently £500.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Provisions of previous policy that will continue to apply:			
2011–2015 Group Performance Share Plan ('GPSP'), deferred cash and share awards.	Vesting of outstanding deferred cash and share-based awards granted in prior years, including 2016. This includes deferred shares and GPSP awards granted under the HSBC Share Plan 2011 and HSBC Share Plan, which will continue to form part of the remuneration policy until vesting. The awards normally vest over a period of up to five years from the date of grant. On vesting, shares (net of any shares sold to cover income tax and social security) will be subject to the applicable retention period set out at the time of the award. Dividend equivalents will be paid on the vested shares. A notional return will be paid for vested deferred cash awards.	Award levels have already been determined based on the outcome of relevant performance measures in the relevant prior year.	The vesting of these awards is subject to a service condition. In respect of performance year 2012, vesting of the deferred shares portion of the annual incentive awards granted in March 2013 is subject to satisfactory conclusion of the Deferred Prosecution Agreement with the US Department of Justice ('US DPA'). No further performance conditions apply for any other awards. The US DPA condition ends on the fifth anniversary of the award date unless it is extended or otherwise continues beyond that date, in which case the awards will vest on the date on which the US DPA expires and otherwise ceases to operate.

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

(i) before the policy set out above, or any previous policy came into effect;

(ii) at a time where a previous policy, approved by shareholders, was in place provided the payment is in line with the terms of that policy; or

(iii) at a time when the relevant individual was not a director of the Company and the payment was not in consideration for the individual becoming a Director of the Company.

Choice of performance measures and targets

The performance measures were selected as they reflect the Group's financial targets and strategy. The measures were determined in consultation with major shareholders.

The targets take into account a number of factors, including the economic environment, market conditions and expectations, the Group's strategic actions and risk appetite.

Further details of the measures and targets under the policy are in the tables below.

Performance measures for annual incentive

Financial measures	Global Standards, including risk and compliance	Personal objectives
Will be aligned to achievement of our annual operating plan targets and linked to the key Group's key strategic actions. Measures may include but are not limited to: • profit before tax; • reduction of Group risk-weighted assets ('RWAs'); • delivery of cost savings; and • strategic growth. Targets for threshold and maximum vesting will be based on various factors including each year's annual operating plan targets.	Drive implementation of our Global Standards and risk and compliance policies. Measures may include but are not limited to: • progress and embedding of anti-money laundering and sanctions policies; • implementation of enhanced customer due diligence programmes worldwide; and • implementation and embedding of conduct programmes. The targets set will be linked to milestones agreed with the Monitor, regulators and overall Group objectives.	Progress made on delivering key non-financial milestones aligned to the Group's strategic actions, leadership and people metrics.

Performance measures for long-term incentives

Financial measures	Global Standards, including risk and compliance	Strategy
Will be strongly aligned to the business strategy and based on primary long-term financial goals. Measures may include but are not limited to: • return on equity; • cost efficiency ('jaws'); and • relative TSR against a global financial services peer group. Targets set for threshold and maximum vesting will be based on long-term financial goals.	Will be used in line with the Monitor's guidance and as part of regulatory requirement to use non-financial measures as part of a balanced scorecard. Measures may include but are not limited to: • completion of US DPA commitments; • management of key risks; and • regulatory transparency. Targets set will be based on achievement of key long-term commitments and achievement of a successful Global Standards roll-out.	Will drive delivery of long-term Group strategic actions.

Other directorships

Executive Directors may accept appointments as non-executive directors of companies which are not part of HSBC if so authorised by either the Board or the Nomination Committee.

When considering a request to accept a non-executive appointment, the Board or the Nomination Committee will take into account, amongst other things, the expected time commitment associated with the proposed appointment. The time commitment for external appointments is also routinely reviewed to ensure that they will not compromise the Directors' commitment to HSBC.

Any remuneration receivable in respect of an external appointment of an executive Director is normally paid to the Group, unless otherwise approved by the Nomination Committee or the Board.

Approach to recruitment remuneration – executive Directors

On the recruitment or appointment of a new executive Director, the Committee would adhere to the following principles:

- remuneration packages should be in line with the approved policy for executive Directors;
- remuneration packages must meet any applicable local regulatory requirements; and
- where necessary, compensation may be provided in respect of forfeiture of awards from an existing employer (buy-out awards).

Outlined in the following table are all components that would be considered for inclusion in the remuneration package of a new executive Director and, for each, the approach that would be adopted.

In the case of an internal appointment, any variable element awarded in respect of the prior role may be allowed to pay out according to its terms on grant.

Components of remuneration package of a new executive Director

Component	Approach taken to each component of remuneration
Fixed pay	Base salary and fixed pay allowance to reflect the individual's role, experience and responsibility, and be set in the context of market practice. Pension in line with policy as set out in the 'Remuneration policy' table.
Benefits	Benefits to be provided will be dependent on circumstances but in line with Group policy and the 'Remuneration policy' table, including the global mobility policy, where applicable, and local regulations.
Annual incentive	New joiners will be eligible to be considered for an annual incentive award as set out in the 'Remuneration policy' table. Guaranteed bonuses are only permitted by exception and must be limited to the first year of service, subject to the Group Deferral Policy and performance requirements.
Long-term incentive	May be considered for LTI award in year as set out in the 'Remuneration policy' table.
Buy-out	May be offered if the individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. Group buy-out policy is in line with the PRA Remuneration Rules, which states that both the terms and amount of any replacement awards will not be more generous than the award forfeited on departure from the former employer. Delivered as HSBC deferred shares with vesting and retention periods to match the terms of forfeited awards with previous employer as closely as possible, subject to proof of forfeiture and other relevant documentation. Where the time to vesting is less than 60 days, cash or deferred cash may be awarded for administrative purposes. Where appropriate, the Committee retains the discretion to utilise the provisions provided in the Listing Rules for the purpose of making buy-out awards.

Service contracts and policy on payments on loss of office executive Directors

Our policy is to employ executive Directors on service agreements with 12 months’ notice period.

Letters setting out the terms of appointment of each of the executive Directors are available for inspection at the Company’s registered office. Consistent with the best interests of the Group, the Committee will seek to minimise termination payments. Directors may be eligible for a payment in relation to statutory rights.

The following table sets out the basis on which payments on loss of office may be made. Other than as set out in the table, there are no further obligations that could give rise to remuneration payments or payments for loss of office:

Payments on loss of office

Component of remuneration	Approach taken
Fixed pay and benefits	Executive Directors may be entitled to payments in lieu of: • notice, which shall consist of base salary, pension entitlements and other contractual benefits, or an amount in lieu of; and/or • accrued but untaken holiday entitlement.
Annual incentives and long-term incentives	In exceptional circumstances as determined by the Committee, the executive Director may be eligible for annual incentives and long-term incentives based on the time worked in the performance year and on the individual executive Director’s contribution.
Unvested deferred awards	All unvested awards will be forfeited when an executive Director ceases employment voluntarily and is not deemed a good leaver. An executive Director may be considered a good leaver at the discretion of the Committee, and the following will apply: • unvested awards will continue to vest in line with the applicable vesting dates, subject to the original performance conditions, the share plan rules, malus and clawback provisions; or • vested shares, subject to retention, will be released to the executive Director on cessation of employment. In the event of death, unvested awards will vest and will be released to the executive Director’s estate as soon as practicable. In respect of outstanding unvested awards, for an individual to be considered as a good leaver, the Committee needs to be satisfied that the executive has no current or future intention at the date of leaving HSBC of being employed by any competitor financial services firm. The Committee determines the list of competitor firms and length of time this restriction applies. If the Committee becomes aware of any evidence to the contrary before vesting, the award will lapse. If the executive Director is not deemed a good leaver for purposes of the GPSP, vested shares, subject to retention, will be released to the executive Director in three equal tranches on each of the first, second and third anniversary of cessation of employment.
Repatriation	Where an executive Director has been relocated as part of their employment, the Committee retains the discretion to pay the repatriation costs. This may include, but are not restricted to, airfare, accommodation, shipment, storage, utilities and any tax and social security that may be due in respect of such benefits.
Post-departure benefits	Applicable for the duration of the clawback period, up to a maximum of seven years from date of departure for those who depart under good leaver provisions under the HSBC Share Plan and subject to non-compete provisions, in accordance with the terms of the policy. Benefits may include medical coverage, tax return preparation assistance and legal expenses for the duration of the clawback period. The Committee also has the discretion to extend the post-departure benefit of medical coverage to former executive Directors, up to a maximum of seven years from their date of departure.
Legal claims	The Committee retains the discretion to make payments (including professional and outplacement fees) to mitigate against legal claims, subject to any such payments being made in accordance with the terms of an appropriate agreement waiving all claims against the Group.
Change of control	In the event of a change of control, outstanding awards will be treated in line with the provisions set out in the respective plan rules.

Remuneration policy – non-executive Directors

Purpose and link to strategy		
Fees		
The fee levels payable reflect the time commitment and responsibilities of a non-executive Director of HSBC Holdings.	The policy for non-executive Directors is to pay: • base fees; and • further fees for additional Board duties such as chairmanship, membership of a committee, or acting as the senior independent Director or deputy Chairman acting as one. Fees are paid in cash. The Board retains the discretion to pay in shares rather than cash where appropriate. Any non-executive Chairman would be paid a fixed annual fee for all Board responsibilities based on their experience and the time commitments expected for the role, together with such other benefits as the Committee may in its absolute discretion determine. Any newly appointed non-executive Director would be paid in line with the policy on a time-apportioned basis in the first year as necessary. No sign-on payments are offered to non-executive Directors. The Board (excluding the non-executive Directors) has discretion to approve changes to the fees. The Board may also introduce any new component of fee for non-executive Directors subject to the principles, parameters and other requirements set out in this remuneration policy. Certain non-executive Directors may be entitled to receive fees for their services as directors of subsidiary companies of HSBC Holdings plc. Such additional remuneration is determined by the board of directors of each relevant subsidiary within a framework set by the Group Remuneration Committee.	The Board will review the amount of each component of fees periodically to assess whether, individually and in aggregate, they remain competitive and appropriate in light of changes in roles, responsibilities, and/or time commitment of the non-executive Directors and to ensure that individuals of the appropriate calibre are able to be retained or appointed. Other than in exceptional circumstances, fees will not increase by more than 20% above the current fee levels during the duration of this policy.
Expenses	Reimbursed for any expenses incurred in performing their role and any related tax cost on such reimbursement.	
Shareholding guidelines	To ensure appropriate alignment with the interests of our shareholders, non-executive Directors, individually or with their connected persons, are expected to satisfy a shareholding guideline of 15,000 shares within five years from 2014 or (if later) their appointment. The Committee reviews compliance with the guidelines annually. The Committee has full discretion in determining any consequences in cases of non-compliance.	

Service contracts and policy on payments on loss of office – non-executive Directors

Non-executive Directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by shareholders at annual general meetings. Non-executive Directors do not have service contracts, but are bound by letters of appointment issued for and on behalf of HSBC Holdings plc. Other than as set out above, there are no obligations in the non-executive Directors' letters of appointment which could give rise to remuneration payments or payments for loss of office.

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