# Corporate governance report



HSBC is committed to high standards of corporate governance. We have a comprehensive range of policies and systems in place to ensure that the Group is well managed, with effective oversight and control.

# Chairman's governance statement

"The Board sets the tone to achieve our results in a way that treats our customers fairly and helps to strengthen communities and ensure a properly functioning financial system."

**Mark E Tucker**
Group Chairman



## Dear Shareholder

On behalf of the Board, I am pleased to present the corporate governance report for 2019.

Corporate governance provides the framework within which we form our decisions and build our business. The entire Board is focused on creating long-term sustainable growth for our shareholders. We also aim to deliver long-term value to all stakeholders. Our corporate governance framework helps us achieve these goals.

We continued our efforts to strengthen and simplify our governance arrangements during the year, with the aim of achieving more effective decision making at Board and management levels. A key achievement in this respect was the demise of our Financial System Vulnerabilities Committee at the end of January 2020, which followed regulatory approval. More information on the transition of the committee's responsibilities to the Group Risk Committee can be found on page 182.

There have been a number of Board changes throughout the year. As a result of these changes, the Board reviewed its current and future skills needs and began a search for additional non-executive Directors, with complementary skills and experience to help the Board through the next stage of the Group's strategy.

**Setting our culture**
We believe how we do business is as important as what we do. The Board sets the tone to achieve our results in a way that treats our customers fairly and helps to strengthen communities and ensure a properly functioning financial system. Our culture determines how we behave, how we make decisions and our attitude towards risk. It is also aligned with the Group's purpose, values and strategy.

**Corporate governance reform and engagement**
With main share listings on the London Stock Exchange and The Stock Exchange of Hong Kong Limited, the Group is required to comply with both corporate governance codes.

**Corporate governance reform**
A number of new requirements were introduced by the new UK Corporate Governance Code 2018. The new UK Code and new reporting regulations place greater emphasis on company purpose, culture and the need for boards to consider views of their stakeholders when making decisions. Information on how the Board discharged its duties can be found on pages 42 to 43.

We are committed to engaging meaningfully with the workforce regardless of geographical location to help ensure that the Board considers the views of employees. The Board considered the existing mechanisms through which it receives views from the workforce and determined that these were working effectively and, therefore, did not adopt one of the three workforce engagement options proposed under the UK Code. Further details can be found on page 172.

The Board commissioned an external effectiveness review during the year. The review confirmed that the Board and its committees were operating effectively and that each individual Director has sufficient time to meet their Board responsibilities. However, the review identified a number of enhancements to improve the Board's practices. Details of the findings and the actions can be found on page 170.

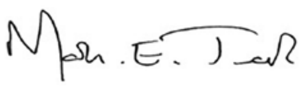
**Subsidiary relationships**
The Board oversaw the implementation of initiatives to strengthen, simplify and enhance corporate governance arrangements at all levels of the Group during 2019. We also took action to formalise our interactions with our principal subsidiaries by holding regular forums with the chairs of these subsidiaries and their material subsidiaries, which provided an opportunity to share best practice and discuss common challenges.

In order to improve Board effectiveness, programmes such as 'Ways of Working' were introduced to make management and Board meetings shorter, more focused and decisive. A total of 200,000 hours of management time were saved and the initiative won 'Governance Project of the Year' at the ICSA Chartered Governance Institute Awards.

We also introduced our subsidiary accountability framework to embed improved governance procedures across the Group.

**Focus for 2020**
Strong and effective corporate governance will be of critical importance as the Board and management progress the implementation of the new business update.

We will continue to seek opportunities to improve our corporate governance arrangements and adapt our governance processes so that these align with the Group's strategic and operational ambitions, and support the Board in its objective of providing long-term sustainable value for all stakeholders.



**Mark E Tucker**
Group Chairman

18 February 2020

# The Board

The Board aims to promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate.

## Chairman and executive Directors

**Mark E Tucker** (62) C
**Group Chairman**
*Appointed to the Board: September 2017*
*Group Chairman since: October 2017*

**Skills and experience:** With over 30 years of experience in financial services in Asia and the UK, Mark has a deep understanding of the industry and the markets in which we operate.

**Career:** Mark was previously Group Chief Executive and President of AIA Group Limited ('AIA'). Prior to joining AIA, he held various senior management roles with Prudential plc, including as Group Chief Executive for four years. He served on Prudential's Board for 10 years.

Mark previously served as non-executive Director of the Court of The Bank of England, as an independent non-executive Director of Goldman Sachs Group and as Group Finance Director of HBOS plc.

**External appointments:**
– Chair of the CityUK
– Non-executive Chairman of Discovery Limited

**Noel Quinn** (58)
**Group Chief Executive**
*Appointed to the Board: August 2019*

**Skills and experience:** Noel has more than 30 years of banking and financial services experience, both in the UK and Asia, with over 27 years at HSBC.

**Career:** Noel has held various management roles across HSBC since joining in 1992. He was most recently Chief Executive Officer of Global Commercial Banking, having been appointed to the role in December 2015 and as a Group Managing Director in September 2016. Noel joined Forward Trust Group, a subsidiary of Midland Bank, in 1987 and joined HSBC in 1992 when the Group acquired Midland Bank. He is also a Director of HSBC Bank Canada.

**External appointments**: None

**Ewen Stevenson** (53)
**Group Chief Financial Officer**
*Appointed to the Board: January 2019*

**Skills and experience:** Ewen has over 25 years of experience in the banking industry, both as an adviser to major banks and as an executive of a large financial institution.

**Career:** Ewen was Chief Financial Officer of Royal Bank of Scotland Group plc from 2014 to 2018. Prior to this, Ewen spent 25 years with Credit Suisse, where his last role was co-Head of the EMEA Investment Banking Division and co-Head of the Global Financial Institutions Group.

**External appointments**: None

**Board committee membership key**
C Committee Chair
● Group Audit Committee
○ Group Risk Committee
○ Group Remuneration Committee
● Nomination & Corporate Governance Committee

## Independent non-executive Directors

**Kathleen Casey** (53) ● ○ ●
**Independent non-executive Director**
*Appointed to the Board: March 2014*

**Skills and experience:** Kathleen has extensive financial regulatory policy experience, including in the US Government and in cross-governmental bodies.

**Career:** Kathleen served as a Commissioner of the US Securities and Exchange Commission ('SEC') between 2006 and 2011, acting as its principal representative in dialogues between the G-20 Financial Stability Board and the International Organization of Securities Commissions.

Kathleen previously spent 13 years working for the US Government, where she held positions including Staff Director and Counsel of the US Senate Committee on Banking, Housing and Urban Affairs, as well as Legislative Director and Chief of Staff for a US Senator.

**External appointments:**
– Chair of the Board of the Financial Accounting Foundation
– Senior Adviser to Patomak Global Partners
– Non-executive Director of the Federal Home Loan Mortgage Corporation

**Laura Cha, GBM** (70) ●
**Independent non-executive Director**
*Appointed to the Board: March 2011*

**Skills and experience:** Laura has extensive regulatory and policymaking experience in the finance and securities sector in Hong Kong and mainland China.

**Career:** Laura was formerly Vice Chairman of the China Securities Regulatory Commission, becoming the first person outside mainland China to join the Central Government of the People's Republic of China at Vice-Ministerial level. The Hong Kong Government awarded her Gold and Silver Bauhinia Stars for public service.

She has previously served as non-executive Director of China Telecom Corporation Limited, Bank of Communications Co., Ltd, and Tata Consultancy Services Limited.

**External appointments:**
– Chair of Hong Kong Exchanges and Clearing Limited
– Non-executive Chair of The Hongkong and Shanghai Banking Corporation Limited
– Non-executive Director of The London Metal Exchange
– Non-executive Director of Unilever PLC and Unilever N.V.

**Henri de Castries** (65) ○ ●
**Independent non-executive Director**
*Appointed to the Board: March 2016*

**Skills and experience:** Henri has more than 25 years of international experience in the financial services industry, working in global insurance and asset management.

**Career:** Henri joined AXA S.A. in 1989 and held a number of senior roles, including Chief Executive Officer from 2000. In 2010, he was appointed Chairman and Chief Executive, before stepping down in 2016.

He has previously worked for the French Finance Ministry Inspection Office and the French Treasury Department.

**External appointments:**
– Special Adviser to General Atlantic
– Chairman of Institut Montaigne
– Vice Chairman of Nestlé S.A.
– Non-executive Director of the French National Foundation for Political Science
– Member of the Global Advisory Council at LeapFrog Investments

**Irene Lee** (66) ○ ●
**Independent non-executive Director**
*Appointed to the Board: July 2015*

**Skills and experience:** Irene has more than 40 years of experience in the finance industry, having held senior investment banking and fund management roles in the UK, the US and Australia.

**Career:** Irene held senior positions at Citibank, the Commonwealth Bank of Australia and SealCorp Holdings Limited.

Other past appointments include being a member of the Advisory Council for J.P. Morgan Australia, a member of the Australian Government Takeovers Panel and a non-executive Director of Cathay Pacific Airways Limited.

**External appointments:**
– Executive Chair of Hysan Development Company Limited
– Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited
– Non-executive Director of Hang Seng Bank Limited
– Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority

# Independent non-executive Directors

**Dr José Antonio Meade Kuribreña** (50)
**Independent non-executive Director**
*Appointed to the Board: March 2019*

**Skills and experience:** José has extensive experience across a number of industries, including in public administration, banking, financial policy and foreign affairs.

**Career:** Between 2011 and 2017, José held Cabinet-level positions in the federal government of Mexico, including as Secretary of Finance and Public Credit, Secretary of Social Development, Secretary of Foreign Affairs and Secretary of Energy. Prior to his appointment to the Cabinet, he served as Undersecretary and as Chief of Staff in the Ministry of Finance and Public Credit.

José is also a former Director General of Banking and Savings at the Ministry of Finance and Public Credit and served as Chief Executive Officer of the National Bank for Rural Credit.

**External appointments:**
- Commissioner and Board Member of the Global Commission on Adaptation
- Non-executive Director of Alfa S.A.B. de C.V.

**Heidi Miller** (66)
**Independent non-executive Director**
*Appointed to the Board: September 2014*

**Skills and experience:** Heidi has more than 30 years of senior management experience in international banking and finance.

**Career:** Heidi was President of International at J.P. Morgan Chase & Co. between 2010 and 2012 where she led the bank's global expansion and international business strategy across the investment bank, asset management, and treasury and securities services divisions.

Previously, she ran the treasury and securities services division for six years. Other past roles included Chief Financial Officer of Bank One Corporation and Senior Executive Vice President of Priceline.com Inc. She is currently Chair of HSBC North America Holdings Inc.

She has previously served in non-executive Director roles for General Mills Inc., Merck & Co Inc. and Progressive Corp. She was also a trustee of the International Financial Reporting Standards Foundation.

**External appointments:**
- Non-executive Director of Fiserv Inc.

**David Nish** (59)
**Independent non-executive Director**
*Appointed to the Board: May 2016*

**Skills and experience:** David has substantial international experience of financial services, corporate governance, financial accounting and operational transformation.

**Career:** David served as Group Chief Executive Officer of Standard Life plc between 2010 and 2015, having joined the company in 2006 as Group Finance Director. He is also a former Group Finance Director of Scottish Power plc and was a partner at Price Waterhouse.

David has also previously served as a non-executive Director of HDFC Life (India), Northern Foods plc, London Stock Exchange Group plc, the UK Green Investment Bank plc and Zurich Insurance Group.

**External appointments:**
- Non-executive Director of Vodafone Group plc

**Sir Jonathan Symonds, CBE** (60)
**Independent non-executive Director**
*Appointed to the Board: April 2014*
*Senior Independent Director since April 2017*
*Deputy Group Chairman since August 2018*

**Skills and experience:** Jonathan has a wide range of international finance and governance experience, including senior management and non-executive roles in a variety of industries.

**Career:** Jonathan was formerly Chairman of HSBC Bank plc, HSBC's European subsidiary. He was previously Chief Financial Officer of Novartis AG from 2009 to 2013. Before joining Novartis, he was a partner and managing director of Goldman Sachs, Chief Financial Officer of AstraZeneca plc and a partner at KPMG. He also held the roles of non-executive Director and Chair of the audit committees of Diageo plc and QinetiQ plc.

**External appointments:**
- Chairman of Geonomics England Limited
- Chairman of GlaxoSmithKline plc
- Chairman of Proteus Digital Health
- Non-executive Director of Rubius Therapeutics, Inc.

### Board attendance in 2019

| | AGM | Board[1] |
|---|---|---|
| **Number of meetings held** | **1** | **8** |
| **Group Chairman** | | |
| Mark Tucker | 1 | 8/8 |
| **Executive Directors** | | |
| Marc Moses | 1 | 8/8 |
| Noel Quinn[2] | 1 | 2/2 |
| Ewen Stevenson[3] | 1 | 8/8 |
| John Flint[4] | 1 | 5/6 |

| | AGM | Board[1] |
|---|---|---|
| **Number of meetings held** | **1** | **8** |
| **Non-executive Directors** | | |
| Kathleen Casey | 1 | 8/8 |
| Laura Cha[5] | 1 | 7/8 |
| Henri de Castries[5] | 1 | 6/8 |
| Lord Evans of Weardale[6] | 1 | 3/3 |
| Irene Lee | 1 | 8/8 |
| José Antonio Meade Kuribreña[7] | | 6/6 |

| | AGM | Board[1] |
|---|---|---|
| **Number of meetings held** | **1** | **8** |
| Heidi Miller | 1 | 8/8 |
| David Nish | 1 | 8/8 |
| Sir Jonathan Symonds | 1 | 8/8 |
| Jackson Tai[5] | 1 | 7/8 |
| Pauline van der Meer Mohr | 1 | 8/8 |

1 Board meetings in 2019 were held in the UK, France, Hong Kong, Mexico and the US. In addition to the Board meetings listed, 10 Chairman's Committee meetings were also held in 2019, both in the UK and overseas.
2 Appointed to the Board on 5 August 2019.
3 Appointed to the Board on 1 January 2019.
4 Stepped down from the Board on 5 August 2019.
5 Laura Cha, Henri de Castries and Jackson Tai were unable to attend Board meetings due to prior arranged commitments.
6 Retired from the Board on 12 April 2019.
7 Appointed to the Board on 1 March 2019.

**Jackson Tai** (69) ● © ●

**Independent non-executive Director**

*Appointed to the Board: September 2016*

**Skills and experience:** Jackson has significant experience as a non-executive Director, having held senior operating and governance roles across Asia, North America and Europe.

**Career:** Jackson was Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank Ltd. between 2002 and 2007, having served as Chief Financial Officer and then as President and Chief Operating Officer. He was previously an investment banker at J.P. Morgan & Co. Incorporated, where he worked for 25 years.

Other former appointments include non-executive Director of Canada Pension Plan Investment Board, Royal Philips N.V., Bank of China Limited, Singapore Airlines, NYSE Euronext, ING Groep N.V., CapitaLand Ltd, SingTel Ltd. and Jones Lang LaSalle Inc. He also served as Vice Chairman of Islamic Bank of Asia.

**External appointments:**
- Non-executive Director of Eli Lilly and Company
- Non-executive Director of MasterCard Incorporated

**Pauline van der Meer Mohr** (59)

○ ● ©

**Independent non-executive Director**

*Appointed to the Board: September 2015*

**Skills and experience:** Pauline has extensive legal and human resources experience across a number of different sectors.

**Career:** Pauline served on the Supervisory Board of ASML Holding N.V. between 2009 and 2018. She was formerly President of Erasmus University Rotterdam, a member of the Dutch Banking Code Monitoring Committee and a Senior Vice President and Head of Group Human Resources Director at TNT N.V. She also held various executive roles at the Royal Dutch Shell Group.

**External appointments:**
- Chair of the Dutch Corporate Governance Code Monitoring Committee
- Chair of the Supervisory Board of EY Netherlands
- Deputy Chair of the Supervisory Board of Royal DSM N.V.
- Non-executive Director of Mylan N.V.
- Member of the Selection and Nomination Committee of the Supreme Court of the Netherlands
- Member of the Capital Markets Committee of the Dutch Authority for Financial Markets

**Aileen Taylor** (47)

**Group Company Secretary and Chief Governance Officer**

*Appointed: November 2019*

**Skills and experience:** Aileen has significant governance experience across various roles in the banking industry.

**Career:** Aileen spent 19 years at the Royal Bank of Scotland Group, having held various legal, risk and compliance roles. She was appointed Group Secretary in 2010 and was most recently Chief Governance Officer and Board Counsel.

## Former Directors who served for part of the year

**Lord Evans of Weardale**

Lord Evans retired from the Board on 12 April 2019.

**John Flint**

John Flint stepped down from the Board on 5 August 2019.

**Marc Moses**

Marc Moses retired from the Board on 31 December 2019.

For full biographical details of our Board members, see www.hsbc.com/who-we-are/leadership.

# Group Management Board

The Group Management Board comprises senior executives who support the Group Chief Executive in the day-to-day management of the business and the implementation of strategy.

**Elaine Arden** (51)
**Group Chief Human Resources Officer**

Elaine joined HSBC as a Group Managing Director and Group Chief Human Resources Officer in June 2017. She was previously at the Royal Bank of Scotland Group, where she was Group Human Resources Director. She has held senior human resources and employee relations roles in a number of other financial institutions, including Clydesdale Bank and Direct Line Group. Elaine is a member of the Chartered Institute of Personnel and Development.

**Samir Assaf** (59)
**Chief Executive Officer, Global Banking and Markets**

Samir joined HSBC in 1994 and became a Group Managing Director in 2011. He is Chairman and a non-executive Director of HSBC France; Director of HSBC Trinkaus & Burkhardt AG and The Saudi British Bank. Former appointments include: a Director of HSBC Bank plc, HSBC Global Asset Management Limited and HSBC Bank Egypt S.A.E.; and Head of Global Markets for Europe, Middle East and Africa.

**Colin Bell** (52)
**Group Chief Compliance Officer**

Colin joined HSBC in July 2016 and was appointed a Group Managing Director in March 2017. He previously worked at UBS, where he was the Global Head of Compliance and Operational Risk Control. Colin joined the British Army in 1990 and he served for 16 years in a variety of command and staff roles and completed the Joint Services Command and Staff College in 2001. He joined UBS Investment Bank in 2007, working in the Risk function prior to moving into Compliance and integrating the Compliance and Operational Risk functions.

**Jonathan Calvert-Davies** (51)
**Group Head of Internal Audit**

Jonathan joined HSBC as a Group Managing Director and Group Head of Internal Audit in October 2019. He has 30 years of experience providing assurance, audit and advisory services to the banking and securities industries in the UK, the US and Europe. Prior to joining HSBC, he led KPMG's financial services internal audit services practice. His previous roles include leading PwC's UK internal audit services practice. He also served as interim Group Head of Internal Audit at the Royal Bank of Scotland Group.

**John Hinshaw** (49)
**Group Chief Operating Officer**

John joined HSBC in December 2019 and became a Group Managing Director and Group Chief Operating Officer in February 2020. John has an extensive background in transforming organisations across a range of industries. Most recently, he served as Executive Vice President of Hewlett Packard and Hewlett Packard Enterprise, where he managed technology and operations and was Chief Customer Officer. Between 2012 and 2019, he served on the Board of Directors of BNY Mellon and chaired its Technology Committee.

**Pam Kaur** (56)
**Group Chief Risk Officer**

Pam was appointed Group Chief Risk Officer in January 2020, having been a Group Managing Director since joining HSBC in 2013. In April 2019, she was appointed Head of Wholesale Market and Credit Risk and Chair of the enterprise-wide non-financial risk forum. Pam was previously Group Head of Internal Audit and has held a variety of audit and compliance roles at banks, including Deutsche Bank, RBS, Lloyds TSB and Citigroup. She serves as a non-executive Director of Centrica plc.

**Stuart Levey** (56)
**Chief Legal Officer**

Stuart joined HSBC and became a Group Managing Director in 2012. Former appointments include: Under Secretary for Terrorism and Financial Intelligence in the US Department of the Treasury; senior fellow for National Security and Financial Integrity at the Council on Foreign Relations; Principal Associate Deputy Attorney General at the US Department of Justice; and a partner at Miller, Cassidy, Larroca & Lewin LLP and at Baker Botts LLP.

**Paulo Maia** (61)
**Chief Executive Officer, Latin America**

Paulo joined HSBC in 1993 and became a Group Managing Director in February 2016. He has been CEO, Latin America since July 2015 and also holds the roles of Chairman of Grupo Financiero HSBC Mexico S.A. de C.V., Chairman of HSBC Argentina Holdings S.A. and Director of HSBC North America Holdings Inc. Former appointments include: Chief Executive Officer of HSBC Bank Canada and HSBC Bank Australia Limited.

**Stephen Moss** (53)
**Group Chief of Staff**

Stephen, who joined HSBC in 1992, became a Group Managing Director in 2018. As Chief of Staff to the Group Chief Executive, Stephen leads Group Strategy and Planning, Group Mergers and Acquisitions, Global Communications, Global Events, Group Public Affairs and Group Corporate Sustainability. Stephen is a Director of The Saudi British Bank, HSBC Middle East Holdings B.V. and HSBC Global Asset Management Limited.

**Charlie Nunn** (48)
**Chief Executive Officer, Retail Banking and Wealth Management**

Charlie joined HSBC in 2011 and became a Group Managing Director and CEO, Retail Banking and Wealth Management in January 2018. Charlie was previously Head of Group Retail Banking and Wealth Management, leading the teams supporting HSBC's retail and wealth businesses globally. Prior to this, he was Group Head of Wealth Management and before that Global Chief Operating Officer for Retail Banking and Wealth Management. Charlie has extensive financial services experience and was formerly a partner at Accenture and a Senior Partner at McKinsey & Co.

**Barry O'Byrne** (44)
**Chief Executive Officer, Global Commercial Banking**

Barry joined HSBC in April 2017 and became interim CEO, Global Commercial Banking in August 2019. He was previously Chief Operating Officer for Global Commercial Banking and prior to joining HSBC, Barry worked at GE Capital for 19 years in a number of senior leadership roles, including as CEO, GE Capital International and in CEO positions in Italy, France and the UK.

**Michael Roberts** (59)
**President and Chief Executive Officer, HSBC USA**

Michael joined HSBC and became a Group Managing Director in October 2019. He is an executive Director, President and CEO of HSBC North America Holdings Inc. He also serves as Chairman of HSBC Bank USA, N.A. and HSBC USA Inc. Previously, he spent 33 years at Citigroup in a number of senior leadership roles, most recently as Global Head of Corporate Banking and Capital Management and Chief Lending Officer.



**António Simões** (44)
**Chief Executive Officer, Global Private Banking**

António joined HSBC in 2007 and became a Group Managing Director in February 2016. He became CEO, Global Private Banking in 2019, having previously served as CEO of UK and Europe (HSBC Bank plc), and before that as Chief of Staff to the Group Chief Executive and Group Head of Strategy and Planning. António was formerly the Chairman of the Practitioner Panel of the FCA, a partner of McKinsey & Company, and an associate at Goldman Sachs.

**Ian Stuart** (56)
**Chief Executive Officer, HSBC UK Bank plc**

Ian has been a Group Managing Director and Chief Executive Officer of HSBC UK Bank plc since April 2017. Ian has worked in financial services for almost four decades. He joined HSBC as Group General Manager and Head of Commercial Banking Europe in 2014, having previously led the corporate and business banking businesses at Barclays and NatWest. He started his career at Bank of Scotland. Ian is a business ambassador for Meningitis Now and a Board member for UK Finance.

**Peter Wong** (68)
**Deputy Chairman and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited**

Peter joined HSBC in 2005 and became a Group Managing Director in 2010. He is Chairman and non-executive Director of HSBC Bank (China) Company Limited and a non-executive Director of Hang Seng Bank Limited. Other appointments include Deputy Chairman of the Hong Kong General Chamber of Commerce; Council Member of Hong Kong Trade Development Council and a member of its Belt and Road Committee; and a Member of the Chongqing Mayor's International Economic Advisory Council.

**Additional members of the Group Management Board**

**Noel Quinn**

**Ewen Stevenson**

**Aileen Taylor**

Biographies are provided on pages 158 and 161.

## Board roles and responsibilities

At 31 December 2019, the Board comprised the Group Chairman, 10 non-executive Directors and three executive Directors. Further details of the Board's career background, skills, experience and external appointments can be found on pages 158 to 161.

### Group Chairman

The Group Chairman provides effective leadership of the Board and is not responsible for executive matters regarding the Group's business.

His principal duties and responsibilities include leading the Board in providing strong strategic oversight, setting the Board's agenda, challenging management's thinking and proposals and ensuring open and constructive debate among Directors. The Group Chairman's role is to promote the highest standards of corporate governance practices, as well as providing ethical leadership of the Group, setting clear expectations of integrity, culture, values, principles and sustainability. The role involves maintaining external relationships with key stakeholders and communicating investors' views to the Board. He also develops and evaluates the Board, committees and Directors, including on succession planning.

The Group Chairman meets with the independent non-executive Directors without the executive Directors in attendance after each Board meeting and otherwise, as necessary.

### Group Chief Executive

The Group Chief Executive's principal duties and responsibilities include leading the Group Management Board, under delegated authority from the Board, with responsibility for the day-to-day operations of the Group. He leads and directs the implementation of the Group's business strategies, embedding the organisation's culture and values.

His role is to protect the Group's reputation, while reviewing and developing its strategy. He is also expected to build, protect and enhance the Group's overall brand value. The Group Chief Executive maintains relationships with key stakeholders, including the Group Chairman and the Board.

### Group Chief Financial Officer

The Group Chief Financial Officer's principal duties and responsibilities include supporting the Group Chief Executive in developing and implementing the Group strategy, while leading the Global Finance function, fostering key finance talent and planning for succession. Responsible for effective financial reporting, he is expected to ensure that processes and controls are in place and that the systems of financial controls are robust and fit for purpose.

Other responsibilities include supporting a robust risk management environment and facilitating strong controls in collaboration with the Risk, Compliance and Global Internal Audit functions. The Group Chief Financial Officer recommends the annual budget and long-term strategic and financial plan. He also maintains relationships with key stakeholders, including shareholders.

### Group Chief Risk Officer

The Group Chief Risk Officer's principal duties and responsibilities involve leading the Global Risk function, assessing the risk profile and controls, and monitoring and mitigating the risks arising from the Group's businesses.

The Group Chief Risk Officer advises the Board and committees on risk appetite and risk tolerance matters, as well as supports the Group Risk Committee in discharging its responsibilities. With effect from 1 January 2020, the role ceased to be an executive Director but the Group Chief Risk Officer will still attend Board meetings.

### Deputy Group Chairman and Senior Independent Director

The principal roles of the Deputy Group Chairman are to deputise formally for the Group Chairman and focus on external leadership of key stakeholders.

As Senior Independent Director, his responsibilities include supporting the Group Chairman in his role, acting as intermediary for other non-executive Directors when necessary, leading the non-executive Directors in the oversight of the Group Chairman and ensuring there is a clear division of responsibility between the Group Chairman and the Group Chief Executive.

The Senior Independent Director is available to shareholders to listen to their views if they have concerns that cannot be resolved through the normal channels.

### Independent non-executive Directors

Independent non-executive Directors make up the majority of the Board. Their role is to challenge and scrutinise the performance of management and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the Group's risk profile.

All of the non-executive Directors are considered to be independent of HSBC. There are no relationships or circumstances that are likely to affect any individual non-executive Director's judgement.

To satisfy the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('HKEx'), all non-executive Directors have confirmed their independence during the year. The non-executive Group Chairman was considered to be independent on appointment.

### Group Company Secretary and Chief Governance Officer

The Group Company Secretary and Chief Governance Officer ensures there is good governance practices at Board level and throughout the Group.

Under the direction of the Group Chairman, she ensures effective functioning of the Board and good information flows within the Board and its committees as well as between senior management and the non-executive Directors. The Group Company Secretary and Chief Governance Officer also facilitates induction and assists with professional development of non-executive Directors, as required.

As Chief Governance Officer, her role is to advise and support the Board and management in ensuring effective governance and good decision making across the Group.

## How we are governed

### Corporate governance

We are committed to high standards of corporate governance. The Group has a comprehensive range of policies and systems in place to ensure that it is well managed, with effective oversight and controls. We comply with the applicable provisions of the UK Corporate Governance Code and the requirements of the Hong Kong Corporate Governance Code.

#### The Board and its role

The Board aims to promote the Group's long-term success and deliver sustainable value to investors and other stakeholders, as well as encouraging a culture of risk awareness, openness and debate. Led by the Group Chairman, the Board sets the Group's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management. The independent non-executive Directors hold management accountable and ensure the executive Directors are discharging their responsibilities properly.

The majority of Board members are independent non-executive Directors. Both the Group Chief Executive and the Group Chief Financial Officer are required to be members of the Board. In 2019, the Group Chief Risk Officer was also a member of the Board. With effect from 1 January 2020, this role ceased to be a Board member but the Group Chief Risk Officer will still attend Board meetings. The role of the independent non-executive Directors is to challenge and scrutinise the performance of management, including executive Directors, and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives as well as monitor the Group's risk profile.

#### Powers of the Board

In exercising its duty to promote the success of the Group, the Board is responsible for overseeing the management of HSBC globally and, in so doing, may exercise its powers, subject to any relevant laws, regulations and HSBC's articles of association.

The Board is committed to effective engagement and fostering its relationship with all of its stakeholders. The Board receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in discussions and in the decision-making process under section 172 of the Companies Act 2006. Further information on how the Directors have had regard to the matters set out in section 172 when discharging their duties is disclosed on pages 42 and 43. Additional non-financial disclosures detailing the policies pursued by HSBC in relation to the workforce, environment, social matters, human rights, and anti-corruption and anti-bribery matters are included in other sections of this *Annual Report and Accounts 2019* and the *ESG Update 2019*.

Certain matters, including the review and approval of annual operating plans, risk appetite, performance targets, credit or market risk limits and any substantial change in balance sheet management policy, require Board approval before implementation. Acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, which are above certain limits, also require prior Board approval.

#### Operation of the Board

The Board regularly reviews reports on performance against financial and other strategic objectives, key business challenges, risk, business developments, investor relations and the Group's relationships with its stakeholders. It also considers presentations on strategy and performance by each of the global businesses and across the principal geographical areas.

All of HSBC's activities involve the measurement, evaluation, acceptance and management of risk or combinations of risks. The Board, advised by the Group Risk Committee, promotes a strong risk governance culture that shapes the Group's attitude to risk and supports the maintenance of a strong risk management framework.

The Group Chairman meets with the independent non-executive Directors without the executive Directors in attendance after each Board meeting and otherwise, as necessary. The Directors are encouraged to have free and open contact with management at all levels and full access to all relevant information. When attending off-site Board meetings and when travelling for other reasons, non-executive Directors are encouraged to visit local business operations and meet local management. Directors may take independent professional advice, if necessary, at HSBC's expense.

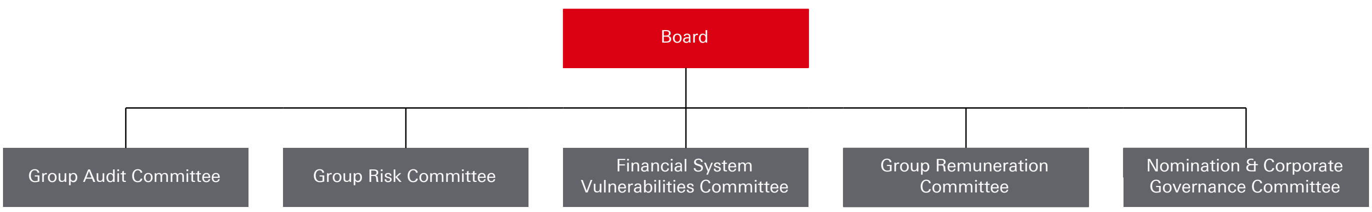
#### Chairman's Committee

The Chairman's Committee acts on behalf of the Board between scheduled Board meetings to facilitate ad hoc and other business requiring Board approval. It meets when necessary, with the required number of attendees determined by the nature of the proposed business to be discussed, as set out in its terms of reference.

#### Role of the Board committees

Committees are smaller groups delegated by the full Board to provide advice on and oversight of HSBC's different activities. Each standing committee is chaired by a non-executive Board member and has a remit to cover specific topics. Only independent non-executive Directors are able to be members of Board committees.

Details of the work carried out by each of the Board committees can be found in the respective committee reports in this *Annual Report and Accounts 2019.*




#### Board performance and accountability

The Board and its committees are subject to regular, independent evaluation of their effectiveness. All Board members also undergo regular performance reviews. In the case of executive Directors, this helps determine the level of variable pay they receive each year.

In addition, the Board is directly accountable to HSBC's shareholders. Shareholders vote at each Annual General Meeting ('AGM') on whether to re-elect individual Directors.

### Board, committees and subsidiary interaction

In addition to the regular Board and committee meetings, there is extensive contact across the Group that complements the formal meeting and approval processes. We have defined how we escalate and cascade information and procedures between the HSBC Holdings Board, the principal subsidiary boards and their respective board committees.

Our Group Chairman interacts regularly with the chairs of the principal subsidiaries, including through the Chairs' Forum, which takes place at various times throughout the year to discuss a wide array of relevant issues impacting the principal subsidiaries.

The Chairs of each of the Group Audit Committee, Group Risk Committee and Group Remuneration Committee also have regular dialogues with the respective committees of the principal subsidiaries to ensure an awareness and coordinated approach to key issues. These interactions are reinforced through Audit and Risk Committee Chairs' Forums and the Remuneration Committee Chairs' Forum. The chairs of the principal subsidiaries committees globally are invited to attend the relevant forums, which are held several times a year, to raise and discuss current and future global issues.

Board members are encouraged to, and do, make regional visits and attend principal subsidiary meetings as guests. Similarly, regional Directors are invited regularly to attend committee meetings at a Group level.

### Relationship between the Board and the senior executive team

The roles of Group Chairman and Group Chief Executive are separate, with a clear division of responsibilities between the running of the Board by the Group Chairman and executive responsibility for running HSBC's business, which is undertaken by the Group Chief Executive.

The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. The Group Chief Executive is supported in his day-to-day management of the Group by recommendations and advice from the Group Management Board, an executive forum that he chairs comprising senior management.

There are special meetings of the Group Management Board that provide specialist oversight. The Risk Management Meeting, chaired by the Group Chief Risk Officer, provides oversight of risk matters, while the Financial Crime Risk Management Meeting, chaired by the Group Chief Compliance Officer, oversees the management of financial crime risk.

### Principal subsidiaries

A company will typically be considered a Group subsidiary if more than 50% of its voting share capital is held by another HSBC company. Subsidiaries are formally designated as principal subsidiaries by approval of the Board. These principal subsidiaries generally conduct commercial activities in markets that carry significant reputational risks and are typically regulated. Other characteristics include having risk, audit, remuneration committees or other board committees as well as independent non-HSBC non-executive Directors.

The designated principal subsidiaries are:

| Principal subsidiary | Oversight responsibility |
|---|---|
| The Hongkong and Shanghai Banking Corporation Limited | Asia-Pacific |
| HSBC Bank plc | Europe, Bermuda (excluding Switzerland and UK ring-fenced activities) |
| HSBC UK Bank plc | UK ring-fenced bank and its subsidiaries |
| HSBC Bank Middle East Limited | Middle East |
| HSBC North America Holdings Inc. | US |
| HSBC Latin America Holdings (UK) Limited | Mexico and Latin America |
| HSBC Bank Canada | Canada |

To strengthen accountability and flows of information, these principal subsidiaries each take responsibility for the oversight of Group companies in their region through the subsidiary accountability framework.

There is close interaction between the Board and the principal subsidiary boards and their respective committees, including the sharing of minutes and a requirement for certain appointments to subsidiary boards to be approved by the Group's Nomination & Corporate Governance Committee.

## Board activities during 2019

The activities of the Board were structured to support the development of the Group's strategy and to enable the Board to support executive management on its delivery within a transparent governance framework.

### Business performance and strategy

The Board is responsible for the monitoring and delivery of the Group's strategy. In 2019, the Board reviewed the progress against the strategic priorities set in June 2018 and will oversee the implementation of the new business update approved in 2020.

As a matter of course, the Board considered and approved key standing items such as the long-term viability statement and certain acquisitions, mergers and disposals. Additional sessions requested by the Group Chairman ensured that the Board considered non-standing items, which included sustainable finance and climate change. A deep dive session on climate change was completed by the Board in July 2019. This session considered the potential impacts of climate change on the business and the climate-related risk initiatives progressing within the Group. It was confirmed that climate-related risk would remain a thematic issue within the Group's 'Top and emerging risk' report. Further details can be found on page 79 and in the *ESG Update*.

The Board managed the process involving the departure of the Group Chief Executive and the appointment of an interim Group Chief Executive on 5 August 2019. Further details can be found on page 171.

### Financial decisions

The Board has an ongoing responsibility for approving key financial decisions throughout the year. Having monitored the Group's performance against the approved 2019 annual operating plan – as well as each of the global businesses – the Board approved the *Interim Report 2019*, the *Annual Report and Accounts 2019* and associated dividends. The Board also approved the renewal of debt programme authorities.

### Governance, risk and regulatory

The Board remained focused on its governance, regulatory obligations and risks to the Group's business throughout the year. A number of key frameworks, control documents and core processes were reviewed and approved. These included:

- the Group's risk appetite framework and risk appetite statement;
- the individual liquidity adequacy assessment process;
- the internal capital adequacy assessment process;
- the revised terms of reference for the Board and the Board committees;
- our corporate governance framework describing HSBC's corporate governance structure and processes in consultation with the UK's Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA');
- the Group recovery plan and delegation of authority; and
- the Group's payment protection insurance ('PPI') provisions.

Certain operational changes were considered and approved, including the change of HSBC Private Banking Holdings (Suisse) SA from a principal subsidiary to a material subsidiary, and the recognition change of HSBC Global Asset Management Limited as a material subsidiary. These changes of definitions altered how these companies operate under the Group's subsidiary accountability framework in terms of the delegation of matters and the escalation of issues. The Board is continually working to assess the smooth operation and oversight of its principal and material subsidiaries.

A revised UK Corporate Governance Code meant that the Board considered and approved its approach to workforce engagement and organisational culture. The Group's obligations under the Modern Slavery Act were also considered and its statement for the Group website was approved.

In order to ensure that the Board is operating in the most effective way possible, an external evaluation of the Board was conducted. Actions from the review were approved and are being implemented by various key stakeholders. Further information is provided on page 170. In addition, Group-wide initiatives such as 'Ways of Working' were implemented during the year to promote efficiency at a Board level and throughout the Group as a whole. Ways of Working aims to improve the efficiency and effectiveness of how we run meetings.

The Board is conscious of the implications of geopolitical developments during the year and actively monitored and reviewed them, including US-China trade relations, the UK's General Election and departure from the EU, and the Argentinian and Hong Kong political situations.

### People and culture

The Board is committed to its diversity and inclusion agenda, which forms a key part of its focus on Group culture. The Board has set targets against a number of diversity and inclusion criteria.

In 2019, the Board considered executive appointments, focusing on succession planning for the Group Chief Executive, the Group Chief Risk Officer and the Group Company Secretary and Chief Governance Officer.

As part of succession planning of the Board, Sir Jonathan Symonds is stepping down as Deputy Group Chairman, Senior Independent Director and the Chair of the Group Audit Committee in February 2020. The Board has appointed David Nish in the role of Senior Independent Director and Chair of the Group Audit Committee. The role of Deputy Chairman will be considered as part of Board succession planning in 2020. In 2019, the Board appointed Dr José Antonio Meade Kuribreña as an independent non-executive Director. It will continue to review the skills and experience of the Board as a whole to ensure the correct composition.

### Technology

The Board reviewed opportunities for the Group from investments in technology, including the Cloud, data and artificial intelligence solutions. It also considered the role of the technology advisory board and its interaction with the Board.

## Board governance

### Appointment

Appointments to the Board are made on merit and candidates are considered against objective criteria, having regard to the benefits of a diverse Board. A rigorous selection process is followed for the appointment of Directors and senior employees. As per the Group's Articles of Association, the number of Directors (other than any alternate Directors) must not be fewer than five nor exceed 25. The Board may at any time appoint any person as a Director, either to fill a vacancy or as an addition to the existing Board. The Board may appoint any Director to hold any employment or executive office, and may revoke or terminate any such appointment.

### Re-election

In accordance with the UK Corporate Governance Code and the requirements of the Hong Kong Corporate Governance Code, all Directors are nominated for annual re-election at the AGM by shareholders, subject to continued satisfactory performance based upon an assessment by the Group Chairman and the Nomination & Corporate Governance Committee. All Directors that stood for re-election at the 2019 AGM were re-elected by shareholders.

### Period of appointment

Non-executive Directors are appointed for an initial three-year term and, subject to re-election by shareholders at each AGM, are typically expected to serve two three-year terms. The Board may invite a Director to serve additional periods but any term beyond six years is subject to a particularly rigorous review with an explanation to be provided in the *Annual Report and Accounts*. No Directors are involved in deciding their own remuneration.

### Time commitment

The terms and conditions of the appointments of non-executive Directors are set out in a letter of appointment, which includes the expectations of them and the estimated time required to perform their role. Letters of appointment of each non-executive Director are available for inspection at the registered office of HSBC Holdings plc. The current anticipated time commitment, which is subject to periodic review, is 75 days per year. Non-executive Directors who chair a Board committee are expected to devote up to 100 days per year to the Group. The Chair of the Group Risk Committee is expected to commit up to 150 days per year, reflecting the complexity of the role and responsibilities of this Committee. All non-executive Directors have confirmed they can meet this requirement, taking into account any other commitments they have at the time of appointment, and, in practice, most devote considerably more time.

### Outside Directorships

During their term of appointment, non-executive Directors are expected to consult the Group Chairman or the Group Company Secretary and Chief Governance Officer if they are considering whether to accept or vary any commitments outside the Group, for which Board approval is required.

### Conflicts of interest

The Board has established a policy and a set of procedures relating to Directors' conflicts of interest. Where conflicts of interest arise, the Board has the power to authorise them. A register of conflicts is maintained by the Group Company Secretary and Chief Governance Officer's office. On appointment, new Directors are advised of the process for dealing with conflicts and the process for reviewing those conflicts when they have been authorised. The terms of those authorisations of conflicts are routinely undertaken by the Board. During the year no conflicts of interest arose.

### Indemnity

The Articles of Association of HSBC Holdings plc contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of HSBC Holdings against claims from third parties in respect of certain liabilities.

HSBC Holdings plc has granted deeds of indemnity by deed poll to the Directors of the Group and associates, including the former Directors who retired during the year. The deed poll indemnity constituted 'qualifying third-party indemnity provisions' for the purposes of the Companies Act 2006 and continues to be in force. The deed poll indemnifies the Directors to the maximum extent permitted by law and was in force during the whole of the financial year or from the date of appointment in respect of the Directors appointed in 2019. Additionally, all Directors have the benefit of Directors' and officers' liability insurance. The deed poll is available for inspection at HSBC Holdings' registered office.

Qualifying pension scheme indemnities have also been granted to the Trustees of the Group's pension schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

## Contracts of significance

During 2019, none of the Directors had a material interest, directly or indirectly, in any contract of significance with any HSBC company. During the year, all Directors were reminded of their obligations in respect of transacting in HSBC securities and following specific enquiry all Directors have confirmed that they have complied with their obligations.

## Shareholder engagement

The Board gives a high priority to communicating with shareholders. Extensive information about HSBC and its activities is provided to shareholders in the *Annual Report and Accounts* and the *Interim Report* as well as on www.hsbc.com. To complement the regular publications provided on HSBC's website, there is regular dialogue with institutional investors.

Directors are encouraged to develop an understanding of the views of shareholders. Enquiries from individuals on matters relating to their shareholdings and HSBC's business are welcomed.

Any individual or institutional investor can make an enquiry by contacting the investor relations team, Group Chairman, Group Chief Executive, Group Chief Financial Officer and Group Company Secretary and Chief Governance Officer. Our Senior Independent Director is also available to shareholders if they have concerns that cannot be resolved or for which the normal channels would not be appropriate. He can be contacted via the Group Company Secretary and Chief Governance Officer at 8 Canada Square, London E14 5HQ.

## Annual General Meeting

The AGM in 2020 will be held at the Queen Elizabeth Hall, Southbank Centre, Belvedere Road, London SE1 8XX at 11.00am on Friday, 24 April 2020 and a live webcast will be available on www.hsbc.com. A recording of the proceedings will be available on www.hsbc.com shortly after the conclusion of the AGM.

Notice of the 2020 AGM will shortly be available on www.hsbc.com/investors/shareholder-information/annual-general-meeting.

Shareholders are encouraged to attend the meeting. Shareholders may send enquiries to the Board in writing via the Group Company Secretary and Chief Governance Officer, HSBC Holdings plc, 8 Canada Square, London E14 5HQ or by sending an email to shareholderquestions@hsbc.com.

## General meetings

Shareholders may require the Directors to call a general meeting other than an AGM, 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 HSBC Holdings or by at least 100 shareholders holding at least £100 of nominal capital that carry the right of voting at its general meetings (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 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 HSBC Holdings at its UK address, referred to in the paragraph above or by sending an email to shareholderquestions@hsbc.com. At any general meeting convened on such request, no business may be transacted except that stated by the requisition or proposed by the Board.

# Board development

## Board induction

We provide new members of the Board with a comprehensive and bespoke induction programme that extends beyond the boardroom and considers their past experience and individual needs. Induction programmes are delivered over a number of months and normally completed prior to the commencement of the appointment. They involve site visits, technical briefings and meetings with Board members, senior management, treasury executives, auditors, tax advisers and, where relevant, regulators. This is to ensure that the Board member can contribute and add value from their appointment date. This supports good information flows within the Board and its committees and between senior management and non-executive Directors, giving a better understanding of our culture and the way things are done in practice. It also provides a sense of the experience and concerns of our people and other stakeholders. Typical induction topics include those that focus on HSBC values, culture and leadership; governance arrangements; Directors' duties; and anti-money laundering and anti-bribery training.

During 2019, we provided induction programmes to the two new Board members as well as to the new Group Company Secretary and Chief Governance Officer. The induction programme for Ewen Stevenson was conducted in 2018. The induction programmes supply the necessary knowledge and insight of the business to support them with strategic Group discussions.

## Board training

To supplement the robust Director induction programme, we provide continual training and development for each Director, with the support of the Group Company Secretary and Chief Governance Officer. Non-executive Directors develop and refresh their skills and knowledge through a range of activities. This ensures Directors understand the key activities and risks involved in the business and enhance their ability to provide effective challenge to the Group's business strategy. Needs are assessed as part of regular, independent evaluation of the Board's own effectiveness and that of its committees. The training and development activities undertaken by each Director during the year are set out below.

### Mandatory training

In 2019, each Director carried out mandatory training modules that mirrored the training undertaken by all employees. Training was delivered through a specially designed mobile application so Directors could access it easily. Modules included the following topics:

- the management of risk under the enterprise risk management framework, with a focus on operational risk;
- the importance of health, safety and well-being;
- data privacy and the protection of data of our customers and colleagues;
- combating financial crime, which involves understanding how we deal with money laundering, sanctions, and bribery and corruption risks; and
- the importance of our values and conduct.

### Board-wide training

Directors undertook various Board and committee training during the year.

They attended deep dive sessions to develop an understanding of the Group's strategic priorities and to monitor their progress. Other reviews covered topics such as selected risk, business and governance areas, including financial crime, climate change, Cloud technology and shareholder activism.

In addition, Directors attended several meetings and forums:

- The Group Chairman hosted two Chairs Forums for the chairs of the Group's principal subsidiaries, which were attended by Directors. The awareness and discussion sessions covered strategy, the economy, regulatory matters, cyber risk and resilience, implementation of the subsidiary accountability framework and corporate governance.
- The Chairs of the Group Audit Committee and the Group Risk Committee hosted three Audit and Risk Committee Chairs Forums for the chairs of the Group's principal subsidiary audit and risk committees. These forum sessions, which took place in Hong Kong, New York and London, promoted connectivity between committees, share governance best practices and a holistic review of focus areas, including regulator priorities in the region.
- The Chair of the Group Remuneration Committee hosted a Remuneration Committee Forum for the chairs of the principal subsidiary boards and committees responsible for remuneration matters. The forum sessions promoted connectivity and encouraged consistency of approach on remuneration matters across the Group.

External consultants provided specific training to all the Group's boards and executive committees who were in scope for the Senior Manager and Certification Regime. The training comprised a refresher of the Senior Manager and Certification Regime, with practical examples of 'reasonable steps' and discussion of relevant case studies where regulatory breaches had occurred.

In 2019, a refreshed Directors' handbook was issued, which included material on Director's duties, Board and Group policies and procedures and regulatory and statutory requirements of which the Directors must be aware and follow.

### Bespoke training

Non-executive Directors discuss individual development areas with the Group Chairman during performance reviews and during conversations with Group and subsidiary company secretaries. If a non-executive Director makes a request for a specific area of knowledge or understanding, the Group Company Secretary and Chief Governance Officer would make appropriate arrangements using internal resources, or otherwise, at HSBC's expense.

### Subsidiaries

Laura Cha, Irene Lee and Heidi Miller – Board Directors who serve on principal subsidiary company Boards – participated in additional training and development activities specifically related to those entities.

Directors' induction and ongoing development in 2019

| Director | Induction[1] | Strategy and business briefings[2] | Risk and control[3] | Corporate governance[4] | ARCC, Chairs and Remco Forum[5] | Subsidiary[6] |
|---|---|---|---|---|---|---|
| Mark Tucker | | X | X | X | X | |
| Noel Quinn | X | | X | X | X | |
| Ewen Stevenson | | X | X | X | X | |
| Marc Moses | | X | X | X | X | X |
| Sir Jonathan Symonds | | X | X | X | X | |
| David Nish | | X | X | X | X | |
| Irene Lee | | X | X | X | X | X |
| José Antonio Meade Kuribreña | X | X | X | X | X | |
| Kathleen Casey | | X | X | X | X | |
| Laura Cha | | X | X | X | X | X |
| Henri de Castries | | X | X | X | | |
| Heidi Miller | | X | X | X | X | X |
| Jackson Tai | | X | X | X | X | |
| Pauline van der Meer Mohr | | X | X | X | X | |

1 *Noel Quinn and José Antonio Meade Kuribreña joined the Board and followed an induction plan during 2019.*
2 *All Directors, except Noel Quinn, participated in business strategy, market development and business briefings, which are global, regional and/or market-specific. Examples of specific sessions held in 2019 included 'Asia growth: build and strengthen in Hong Kong' and 'Strategic priority: growth of UK ring-fenced bank.'*
3 *All Directors received risk and control training. Examples of specific sessions held in 2019 included 'Governance of climate-related risk', 'Wholesale and retail credit risk management' and 'Forward-looking financial crime risk issues.'*
4 *All Directors received corporate governance training. Examples of specific sessions held in 2019 included 'Sustainable control environment: outcomes and learnings from the pilot of critical processes' and 'ESG Update.'*
5 *All Directors except Henri de Castries attended at least one of the following: the Principal Subsidiary Chairs Forum, the Audit and Risk Committee Chairs Forum and the Remuneration Committee Chairs Forum.*
6 *Marc Moses, Laura Cha, Irene Lee and Heidi Miller were Directors of a subsidiary company and undertook the required training for the respective entities.*

## Board effectiveness

The Board is committed to regular, independent evaluation of its own effectiveness and that of its committees. At least once every three years, to ensure objectivity and fresh insights, the Board commissions an external evaluation to review the Board's performance and to identify areas for improvement. The last external evaluation was carried out in 2016.

During 2019, the Nomination & Corporate Governance Committee oversaw the process to appoint an independent service provider to evaluate the Board's performance. After the Committee invited three independent firms to participate in a tender process to conduct the Board review in 2019, it appointed Dr Tracy Long of Boardroom Review Limited. Dr Tracy Long is an independent external service provider with no connection to the Group or any individual Directors.

The methodology was customised to HSBC and included a review of corporate information, preparatory briefings and interviews with Directors, including chairs of some of the principal subsidiaries, selected executives, regulators and the external auditor. Between January and April 2019, Dr Tracy Long observed various Board meetings, committee meetings, private sessions and strategy discussions.

The review covered all aspects of the Board's *modus operandi* with a specific focus on the Board's leadership, the individual and collective contribution of Directors, the work of the Board and governance.

Findings were presented in the form of a discussion document that analysed the Board's strengths and challenges alongside specific recommendations designed to support the Board in preparing for future challenges and to help Directors optimise their contribution to the success of the Group. Findings in relation to individual performance were fed back to the Group Chairman and individual Directors.

On receipt of the report, the Group Chairman led a Board discussion on the findings. Following a constructive debate, the Board agreed the actions and priorities to be implemented.

### The findings

The review identified a number of key strengths of the Board including:

- a strong focus on Board composition that provides effective leadership with a common purpose and independent mindset. Following the appointment of the Group Chairman, steps had already been taken to reduce the size of the Board, restructure the Committees and encourage better connections between Subsidiaries and the Group;
- effective communication channels and meaningful dialogue with stakeholders;
- an open and collegiate culture, which values individual contributions and lessons learned through deep dive sessions;
- a healthy diversity of perspectives and an increasing sense of team;
- a shared strategic perspective;
- a sophisticated risk management framework supported by strong and rigorous audit and risk committees;
- increased transparency in relation to issue escalation; and
- a balanced approach to remuneration and close attention to talent development.

The review explored potential longer-term challenges and suggested ways that the Board might build on its current strengths to ensure it remained effective as it progressed through a period of change. Key themes included:

#### Leadership

- Continue to provide strong leadership through a culture of collaboration, transparency, open communication and cooperation.

#### Shared perspective

- Build on the shared strategic perspective by ensuring that the Board agenda allows sufficient time and visibility of longer term strategic perspectives aligned to its appetite for business risk.

#### Culture

- Reflecting the improvement in corporate culture, keep culture on the agenda to ensure ongoing transparency and escalation of issues. Maintain visibility and insight into cultural initiatives and differences across global businesses.

#### End-to-end governance

- Maintain focus on improving the quality of information and increased communication channels with subsidiaries and other stakeholders, including the voice of the employee.

#### Future thinking

- Continue to develop the Board agenda to provide focus on emerging issues.

The Board has approved actions designed to implement the above, which will be monitored and addressed on an ongoing basis. In addition, a number of one-off and administrative changes designed to improve the effectiveness of Board meetings, such as the layout of the Boardroom, have already been implemented.

## Board Committees

## Nomination & Corporate Governance Committee

"Ensuring the Board is of the right size, structure and composition is critical to creating an effective Board that delivers for HSBC and its shareholders."

### Dear Shareholder

I am pleased to present our report on the Nomination & Corporate Governance Committee's activities for 2019. This report provides an overview of the work of the Committee and its activities during the year.

The primary responsibilities of the Committee include reviewing the composition of the Board and its committees, overseeing succession planning of executive Directors, non-executive Directors and other senior appointments and monitoring the Group's corporate governance framework. The Committee also makes recommendations to the Board on governance matters and best practice.

### Board composition

The Committee takes the lead on all Board and Board committee appointments, including leading the process for identifying and nominating candidates for approval. It ensures orderly succession plans are in place for both Board and senior management positions. The Committee also oversees the development of a diverse pipeline of candidates. During 2019, a number of Director changes took place:

- On 1 January, Ewen Stevenson was appointed Group Chief Financial Officer and executive Director, succeeding Iain Mackay who stepped down on 31 December 2018. The process leading to Ewen's appointment was explained in the *Annual Report and Accounts 2018*.
- On 1 March, Dr José Antonio Meade Kuribreña joined the Board as an independent non-executive Director. José has extensive experience in public administration, banking and financial policy and is currently a Commissioner of the Global Commission on Adaptation, which seeks to enhance political visibility of climate resilience.
- On 12 April, Lord Evans of Weardale retired from the Board.
- On 5 August, John Flint stepped down as Group Chief Executive and as a Director by mutual agreement with the Board. Noel Quinn was appointed as interim Group Chief Executive and executive Director, pending the appointment of a permanent successor.
- On 31 December, Marc Moses retired from the Board and his position as Group Chief Risk Officer. On 1 January 2020, Pam Kaur was appointed as the new Group Chief Risk Officer.

The Committee also has oversight of the composition of the boards of the Group's regional principal subsidiaries and approves the appointment of Directors and senior management in those subsidiaries.

### Membership

| | Member since | Meeting attendance in 2019 |
|---|---|---|
| Mark Tucker (Chair) | Oct 2017 | 7/7 |
| Kathleen Casey | April 2018 | 7/7 |
| Laura Cha | May 2014 | 7/7 |
| Henri de Castries[1] | April 2018 | 5/7 |
| Lord Evans of Weardale[2] | April 2018 | 3/3 |
| Irene Lee | April 2018 | 7/7 |
| José Antonio Meade Kuribreña | April 2019 | 5/5 |
| Heidi Miller | April 2018 | 7/7 |
| David Nish | April 2018 | 7/7 |
| Sir Jonathan Symonds | April 2017 | 7/7 |
| Jackson Tai | April 2018 | 7/7 |
| Pauline van der Meer Mohr | April 2016 | 7/7 |

1 *Henri de Castries was unable to attend two Committee meetings due to prior engagements.*
2 *Lord Evans of Weardale retired from the Board and Committee on 12 April 2019.*

### Board succession

Succession planning was central to the Committee's agenda in 2019. It was discussed at each Committee meeting throughout the year and the discussions covered succession planning for the Group Chief Executive, executive Directors, non-executive Directors and senior management, which includes the 90 most senior roles across the Group.

The Committee's process for identifying – or planning for – new members to the Board considers the tenures, time commitments, skills and experience of the existing non-executive Directors. The Committee remains committed to ensuring the Board and its committees have the right balance of skills and experience to help achieve our strategic objectives.

The Committee's approach when considering the recruitment of new Board members involves the adoption of a formal and transparent procedure with due regard to the skills, knowledge and level of experience required, as well as diversity and soft skills. Soft skills include good judgement and critical assessment, openness and the ability to develop trust and forge relationships.

In July, it was announced that Sir Jonathan Symonds would retire as Deputy Group Chairman and Senior Independent Director on 18 February 2020. Jonathan will be replaced in the role of Senior Independent Director and Chair of the Group Audit Committee by David Nish. The role of Deputy Group Chairman will be considered during 2020 as part of Board succession planning. Kathleen Casey has indicated her intention to step down from the Board in April 2020 and will not stand for re-election at the AGM. I would like to thank Jonathan and Kathleen for their valued contribution.

As part of its succession planning, the Committee engaged Russell Reynolds Associates to support the search for new non-executive Directors. A sub-committee comprising five members of the Committee, supported by the Company Secretary and Chief Governance Officer, met regularly between Committee meetings to lead and progress the search.

In November, Aileen Taylor joined the Group as Group Company Secretary and Chief Governance Officer, replacing Richard Gray who served as interim Group Company Secretary from April to November 2019.

### Group Chief Executive succession

In August 2019, the Committee initiated the process to identify a new Group Chief Executive to consider both internal and external candidates. The search is focused on candidates who have the relevant skills and experience required for an organisation of the scale, complexity and global nature of HSBC. The key actions undertaken by the Committee during 2019 were to: agree the profile and requirements of the role; identify the appropriate executive search firm, which after presentations from and consideration of three firms, resulted in the appointment of Egon

Zehnder; review the long list of candidates provided; discuss diversity and inclusion as part of the review process; and assess the characteristics of each candidate and provide feedback to Egon Zehnder on the proposed shortlist. Russell Reynolds and Egon Zehnder assist with senior recruitment at HSBC. They have no other connection with HSBC Holdings or any of its Directors.

## Diversity

Building a more diverse and inclusive workforce is a critical component to developing a sustainable and successful business. This is informed by our deep roots in many geographical regions and our international focus. We apply these principles with regard to the composition of our Board, with consideration of a wide range of backgrounds, including the gender, ethnicity, age, geographical provenance and educational and professional backgrounds of candidates. How the Group performs against diversity targets can be found on page 19.

The Committee remains committed to delivering on the Board diversity and inclusion policy, which was approved in July 2018. The policy is a framework for ensuring, among other considerations, that the Board attracts, motivates and retains the best talent, while also setting out how to eliminate bias, prejudice or discrimination whether intentional or not.

## Independence of non-executive Directors

The UK Corporate Governance Code requires the Board to identify in the *Annual Report and Accounts* each non-executive Director it considers to be independent after consideration of all relevant circumstances that are likely to impair, or could appear to impair, independence. This should include independence of character and judgement. Similarly, the Hong Kong Corporate Governance Code requires the Committee to assess the independence of the non-executive Directors.

All non-executive Directors who have submitted themselves for re-election at the AGM are considered by the Board to be independent in accordance with UK and Hong Kong requirements and they continue to make effective contributions and effectively challenge and hold management to account.

The Committee is responsible for renewal of the terms of office of independent non-executive Directors. Non-executive Directors are appointed for an initial three-year term and, subject to re-election by shareholders, on an annual basis at the Group's AGM. Non-executive Directors are typically expected to serve two three-year terms, although they may serve additional periods at the invitation of the Board. After a non-executive Director has served more than nine years on the Board, the term of appointment moves to an annual basis to ensure appropriate review and challenge.

On 1 March 2020, Laura Cha will have served on the Board for nine years from the date of her first appointment as a Director. In view of her strong contribution and constructive guidance and challenge when holding management to account, the Board has requested Laura Cha to stand for re-election at the 2020 AGM. In making its recommendation to the Board, the Committee also considered the valuable perspectives from Laura Cha's extensive regulatory and policymaking experience in Hong Kong and mainland China.

The continued service of Laura Cha beyond nine years reflects current circumstances and is in the context of the length of service of the other non-executive Directors as a whole, each of whom have served on the Board for fewer than six years. After taking into account all relevant factors, including her length of service, the Board determined that Laura Cha will continue to be independent. In making this determination, her previous role as Chair of The Hongkong and Shanghai Banking Corporation Limited, where she was a corporate relations adviser until 2011, was considered not to be material.

## Governance

The Committee has continued to focus on strengthening the Group's corporate governance arrangements, including the operation of the subsidiary accountability framework and corporate governance framework.

The Financial Reporting Council's revised UK Corporate Governance Code took effect on 1 January 2019. The Committee took this opportunity to reflect on the Code's governance requirements, including on workforce engagement, to develop our governance arrangements in a manner considered most appropriate and effective. For further information on our employees, including employee development and diversity and inclusion, see pages 18 to 19 and pages 215 to 217.

## Board evaluation

An independent evaluation of the Board and its committees was carried out during the year by Dr Tracy Long of Boardroom Review Limited. The Committee was involved in the appointment and overseeing certain actions arising from the evaluation. Full details can be found on page 170.

## Workforce engagement

HSBC is committed to engaging meaningfully with the workforce, regardless of geographical location, to impart information and to ensure the employee voice is considered when developing its business. The Committee received updates on corporate governance developments during the year and considered how it could appropriately and effectively apply the requirements of the UK Corporate Governance Code that relate to workforce engagement within HSBC.

The Board agreed to a recommendation from the Committee that the Group would apply the 'alternative arrangements' approach to workplace engagement in the Code, as opposed to one of the three prescribed methods. The 'alternative arrangements' approach to how we engage with our employees was considered the most effective in large part due to our geographical reach.

During 2019, in response to the Code, the Board put a focus on ensuring the employee voice is heard in the boardroom while continuing the many existing procedures already in place. This enabled an increased understanding of employee concerns and issues as part of the Board's decision-making process.

Outside the normal activities of the Board, other new procedures were implemented, as follows:

- The Group Chief Executive and the Group Chief Human Resources Officer provided twice-yearly formal updates to the Board on the employee voice, including results of employee engagement surveys using benchmarked data.
- The chairs forums of the principal subsidiaries held discussions to consider feedback from the employee voice of those subsidiaries. Key issues or observations were reported to the Board at its following meeting.
- Directors attended 'open door' events and met with our employees. Directors could choose which events to attend and when. The events included town halls, employee resource group meetings, graduate intake feedback sessions, experienced hire onboarding sessions and leadership conferences for global businesses and functions. In addition, Directors are given the opportunity to set up Director-led Exchange and focus groups to engage with employees.
- Paper templates for Board meetings were altered in order to support the Board's consideration of employee and other stakeholder views when making principal decisions.

## Focus for 2020

During the course of 2020, the Committee will continue to focus on succession planning and to monitor HSBC's compliance with new regulations and developments arising under best practice and from the UK Corporate Governance Code. The Committee has also commissioned a subsidiary governance review of the Group's principal and key material subsidiaries.

**Mark E Tucker**

Chair

Nomination & Corporate Governance Committee

18 February 2020

## Group Audit Committee

"The Committee continued in 2019 to focus on an effective end-to-end control environment, the foundation of sound financial reporting and consistent customer service."

### Dear Shareholder

I am pleased to introduce the Group Audit Committee ('GAC') report. The Committee had another busy year, holding 10 meetings in 2019.

There were two important additions to management relevant to the GAC. Ewen Stevenson joined as Group Chief Financial Officer on 1 January 2019 and Jonathan Calvert-Davies joined as Group Head of Internal Audit on 1 October 2019. Both bring with them significant financial services experience.

The Committee members as a whole have strong, but diverse, financial backgrounds relevant to the sector in which we operate. This was a real benefit in the understanding of the financial, operational and macroeconomic challenges facing the Group, all of which require careful thought on recognition and presentation.

After serving as Chair of the GAC for almost six years, I will be stepping down from the Board on the publication of these results. David Nish will take over as Chair of this Committee with effect from 19 February 2020. Kathleen Casey will be leaving the Board at the AGM and I would like to thank her for her tremendous support to the work of the Committee. I would also like to thank all the GAC members for their support while serving as Chair of the GAC.

Even though much work still needs to be done, an exceptional amount has been achieved. The Group's financial reporting processes, control processes and ability to forecast and react to geopolitical and macroeconomic turbulence are immeasurably better. Still more can be done to improve the robustness of end-to-end processes for the benefit of improved financial control, simpler operating processes and more consistent customer outcomes.

We continued to strengthen our relationships with the principal subsidiary audit committees through regular communication, with the escalation and cascading of information of key activities and through active participation in the Audit and Risk Committee Chairs Forum. This has been a major advance in the last few years and has brought the work of the subsidiary audit committees and the risk committees into much tighter alignment.

The Committee is also encouraged by management's efforts to enhance the Group's whistleblowing arrangements, focusing on key culture and conduct-related themes emerging from the analysis of whistleblowing cases. Critical to sustained improvement is the needed establishment of a stronger 'speak up' culture throughout the Group.

### Membership

| | Member since | Meeting attendance in 2019 |
|---|---|---|
| Sir Jonathan Symonds (Chair) | Sep 2014 | 10/10 |
| Kathleen Casey | Mar 2014 | 10/10 |
| David Nish | May 2016 | 10/10 |
| Jackson Tai[1] | Dec 2018 | 9/10 |

*1 Jackson Tai was unable to attend the meeting in December 2019 due to a prior engagement.*

Our external auditor, PricewaterhouseCoopers LLP ('PwC'), has now completed its fifth audit. PwC continues to provide robust challenge to management and has been a significant force in the drive to deliver a more effective control environment. PwC has given sound independent advice to the Committee on specific financial reporting and judgements.

Further details of PwC's work are contained on pages 174 to 177.

### Key responsibilities

The Committee's key responsibilities are as follows:

- The Committee monitors and assesses the integrity of the financial statements, formal announcements and regulatory information in relation to the Group's financial performance as well as significant accounting judgements.
- It reviews the effectiveness of, and ensures that management has appropriate internal controls over, financial reporting.
- The Committee reviews and monitors the relationship with the external auditor and oversees its appointment, tenure, rotation, remuneration, independence and engagement for non-audit services.
- It oversees the work of Global Internal Audit and monitors and assesses the effectiveness, performance, resourcing, independence and standing of the function.

### Activities in the year

In 2019, the GAC carried out the following activities:

- The Committee monitored a Group-wide programme to strengthen the control environment in a more sustainable way through improving the understanding of end-to-end processes and ownership of controls. The Committee also continued to monitor ongoing control remediation.
- It conducted a review of the enhancements to the whistleblowing arrangements to improve its effectiveness and employee confidence in the process and to encourage an improved 'speak up' culture across HSBC.
- The Committee reviewed management plans in response to regulatory changes, including the transition of interbank offered rates ('Ibors'), IFRS 17 'Insurance Contracts' and Basel III reforms.
- The Committee carried out a review of the environmental, social and governance ('ESG') disclosures and continued to monitor developments to enhance and embed controls for these disclosures.
- The Committee challenged and assessed the effectiveness of the external audit process.
- It continued to engage with Global Internal Audit's annual plan, received regular updates and invited management to discuss remediation plans on areas rated as not effective by Global Internal Audit.

### Focus of future activities

The Committee will focus on the ongoing priorities that will continue into 2020. However, in light of the business update announced with the results, the GAC will provide additional scrutiny over management's assurance and execution of strategic plans, sequencing of events and the impact of these actions on financial reporting and the sustainable control environment.

### Committee governance

The Committee is responsible for communicating and advising the Board on matters concerning the Group's financial reporting requirements to ensure that the Board has exercised oversight of the work carried out by management, Global Internal Audit and the external auditor.

The Group Chief Financial Officer, Head of Finance, Group Chief Accounting Officer, Group Head of Internal Audit and other members of senior management routinely attended meetings of the GAC. The external auditor attended all meetings.

The Chair held regular meetings with management to discuss agenda planning and specific issues as they arose during the year. Most meetings included *in camera* sessions with the Chief Legal Officer and the internal and external auditors.

The Committee, led by the Chair, who is also the Deputy Group Chairman and Senior Independent Director, oversaw the succession process and selection of the Group Head of Internal Audit.

The Committee Secretary regularly met with the Chair to consider input from stakeholders, including senior management, internal auditors and external auditors to finalise meeting agendas and to track progress on actions and Committee priorities.

To ensure that the Committee reports its findings and recommendations to the Board in a timely and orderly manner, it usually meets a couple of days before Board meetings.

### Compliance with regulatory requirements

The Board has confirmed that each member of the Committee is independent according to the criteria from the US Securities and Exchange Commission and may be regarded as audit committee financial experts for the purposes of section 407 of the Sarbanes-Oxley Act. All Committee members have recent and relevant financial experience for the purposes of the UK and Hong Kong corporate governance codes.

The Committee assessed the adequacy of resources of the accounting and financial reporting function. It also monitored the legal and regulatory environment relevant to its responsibilities.

The GAC Chair had regular meetings with the regulators, including the UK's PRA, the FCA and the US Federal Reserve Board. These included trilateral meetings involving the Group's external auditor PwC.

### Committee evaluation and effectiveness

During the year, the Committee carried out an internal review of its own effectiveness and was also subject to an externally facilitated Board effectiveness review. Further details of this can be found on page 170.

Both reviews concluded that the Committee continued to operate effectively and in line with regulatory requirements. During 2019, recommendations from the external review, including joint recommendations with the Group Risk Committee ('GRC'), were tracked and implemented.

## How the Committee discharged its responsibilities

### Connectivity with principal subsidiary audit committees

During the year, GAC members had regular formal and informal communication with the members of the audit committees of the Group's principal subsidiaries. Appointments to the audit committees of the principal subsidiaries were reviewed by the GAC. The GAC Chair met with the proposed new chairs of the principal subsidiaries' audit committees, as appropriate.

On a half-yearly basis, principal subsidiary audit committees provided certifications to the GAC regarding the preparation of their financial statements, adherence to Group policies and escalation of any issues that required the attention of the GAC. Where necessary, the GAC Chair attended meetings of the principal subsidiaries' audit committees to enable closer links and deeper understanding on judgements around key issues.

### Financial reporting

The Committee's review of financial reporting during the year included the *Annual Report and Accounts*, *Interim Report*, quarterly earnings releases, *ESG Update*, analyst presentations and Pillar 3 disclosures.

As part of its review, the GAC evaluated management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure these were consistent, appropriate and acceptable under the relevant financial reporting requirements. In particular, the Committee gave careful consideration to the key performance metrics relating to the strategic priorities to ensure transparency and consistency throughout the financial reporting disclosures.

In conjunction with the GRC, the GAC considered the current position of the Group, along with the emerging and principal risks, and carried out a robust assessment of the Group's prospects, before making a recommendation to the Board on the Group's long-term viability statement. The GAC also undertook a detailed review before recommending to the Board that the Group continue to adopt the going concern basis in preparing the annual and interim financial statements.

Following challenge of the disclosures, the Committee recommended to the Board that the financial statements, taken as a whole, were fair, balanced and understandable. The financial statements provided the shareholders with the necessary information to assess the Group's position and performance, business model, strategy and risks facing the business.

### Internal controls

The GAC assessed the effectiveness of the internal control system for financial reporting and any developments affecting it. This was in support of the Board's assessment of internal control over financial reporting, in accordance with section 404 of the Sarbanes-Oxley Act.

The Committee received regular updates and confirmations that management had taken, or was taking, the necessary actions to remediate any failings or weaknesses identified through the operation of the Group's framework of controls. Further details of how the Board reviewed the effectiveness of key aspects of internal control can be found on page 214.

### External auditor

The Group's external auditor is PwC, which has held the role for five years. The senior audit partner was rotated to Scott Berryman in 2019 and the GAC oversaw the transition. The Committee reviewed the external auditor's approach, strategy for the annual audit and its findings. In 2019, the Committee reviewed auditor independence and audit quality, and GAC members routinely met audit partners in various locations of the business. Principal matters discussed with PwC are set out in its report on page 220.

The GAC is involved in audit partner rotation and succession for the Group and its principal subsidiaries. The GAC monitors the policy on hiring employees or former employees of the external auditor, including in relation to any breaches of the policy. The external auditor attended all Committee meetings and the GAC Chair maintains regular contact with the audit partner throughout the year. The GAC Chair and the senior audit partner also met jointly with the regulators during the year.

During the year, the GAC assessed the effectiveness of PwC as the Group's external auditor, using a questionnaire that focused on the overall audit process, its effectiveness and the quality of output.

The Committee also assessed any potential threats to independence that were self-identified or reported by PwC. The GAC considered PwC to be independent and PwC, in accordance with professional ethical standards, provided the GAC with written confirmation of its independence for the duration of 2019.

The Committee confirms it has complied with the provisions of the Competition and Markets Authority Order for the financial statements. The Committee acknowledges the provisions contained in the UK Corporate Governance Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, HSBC will be required to tender for the audit for the 2025 financial year end and beyond, having appointed PwC from 1 January 2015.

The Committee believed it would not be appropriate to re-tender for the external audit after PwC has finished its first five-year rotation. As one of the largest international financial services companies in the world, it would take time for any new external auditor to develop an understanding of the business. HSBC is undergoing a period of significant strategic change and the Committee currently believes that frequent changes of auditor would be inefficient and lead to increased risk. A change in auditor has a significant impact on the organisation, including on the Finance function, and any change in auditor should be scheduled to limit operational disruption.

The Committee will consider its strategy on audit tendering in preparation for the 2025 financial year end in due course.

Therefore, the Committee has recommended to the Board that PwC should be reappointed as auditor. Resolutions concerning the reappointment of PwC and its audit fee for 2020 will be proposed to shareholders at the 2020 AGM.

### Non-audit services

The Committee is responsible for setting, reviewing and monitoring the appropriateness of the provision of non-audit services to the external auditor. It also applies the Group's policy on the award of non-audit services to the external auditor. The non-audit services are carried out in accordance with the external auditor independence policy to ensure that services do not create a conflict of interest. All non-audit services are approved by the GAC.

The non-audit services carried out by PwC included 34 engagements approved during the year where the fees were over $100,000 but less than $1m. Group Finance, as a delegate of GAC, considered that it was in the best interests of the Group to use PwC for these services because they were:

- audit-related engagements that were largely carried out by members of the audit engagement team, with the work closely related to the work performed in the audit;
- engagements covered under other assurance services that require obtaining appropriate audit evidence to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information;
- tax compliance services; or
- other permitted services to advisory attestation reports on internal controls of a service organisation primarily prepared for and used by third-party end users.

Similar non-audit services to the ones outlined above included three engagements that were approved by the Committee where the fee exceeded $1m, and a further three engagements outside the scope of the pre-approved services list were approved during the year. They were extensions of work started in the previous year and consistency of methodology of these reviews was critical for the success of these engagements.

| Auditors' remuneration | **2019 $m** | 2018 $m |
|---|---|---|
| Total fees payable | **110.7** | 119.50 |
| Fees for non-audit services | **25.50** | 32.90 |

### Internal audit

The primary role of the Global Internal Audit function is to help the Board and management protect the assets, reputation and sustainability of the Group. Global Internal Audit does this by providing independent and objective assurance on the design and operating effectiveness of the Group's governance, risk management and control framework and processes, prioritising the greatest areas of risk.

The independence of Global Internal Audit from day-to-day line management responsibility is critical to its ability to deliver objective audit coverage by maintaining an independent and objective stance. Global Internal Audit is free from interference by any element in the organisation, including on matters of audit selection, scope, procedures, frequency, timing, or internal audit report content. Global Internal Audit adheres to The Institute of Internal Auditors' mandatory guidance.

The Group Head of Internal Audit reports to the Chair of the GAC and there are frequent meetings held between them. Results of audit work, together with an assessment of the Group's overall governance, risk management and control framework and processes are reported regularly to the GAC, GRC and local audit and risk committees, as appropriate. This reporting highlights key themes identified through audit activity, business and regulatory developments, and provides an independent view of emerging and horizon risk, together with details of audit coverage.

Audit coverage is achieved using a combination of business and functional audits of processes and controls, risk management frameworks and major change initiatives as well as regulatory audits, investigations and special reviews. Key areas of focus for 2019 audit coverage were prudential soundness, operational resilience, conduct and culture, financial crime and regulatory compliance, and data management and governance. Executive management is responsible for ensuring that issues raised by the Global Internal Audit function are addressed within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit, which validates closure on a risk basis.

Consistent with previous years, the 2020 audit planning process will include assessing the inherent risks and strength of the control environment across the audit entities representing the Group. Results of this assessment are combined with a top-down analysis of risk themes by risk category to ensure that themes identified are addressed in the plan. Risk theme categories for 2020 audit work include strategy, governance and culture; financial crime, conduct and compliance; financial resilience; and operational resilience. During 2020, a quarterly assessment of key risk themes will form the basis of thematic reporting and plan updates and will ultimately drive the 2021 planning process. The annual audit plan and material plan updates are approved by the GAC. The GAC is satisfied with the effectiveness of the Global Internal Audit function. On the appointment of Jonathan Calvert-Davies as Head of Group Internal Audit, the GAC considered and approved him joining the Group, and his independence with him being a former partner of PwC.

Global Internal Audit maintains a close working relationship with HSBC's external auditor, PwC. The external auditor is kept informed of Global Internal Audit's activities and results, and is afforded free access to all internal audit reports and supporting records.

## Principal activities and significant issues considered during 2019

### Collaborative oversight by GAC and GRC

The GAC and GRC worked closely to ensure there were procedures to manage risk and oversee the internal control framework. They also worked together to ensure any areas of significant overlap were appropriately addressed with inter-committee communication or joint meetings.

The Chairs are members of both committees and engage on the agendas of each other's committees to further enhance connectivity, coordination and flow of information.

In 2019, three Audit and Risk Committee Chair Forums were held in Hong Kong, New York and London with the chairs of principal and regional subsidiaries' audit and risk committees, together with senior management from these subsidiaries. The purpose of these Audit and Risk Committee Chair Forums was to discuss mutual priorities, improvement and remediation programmes and forward-looking issues in relation to the management of risk and the internal control framework.

Three areas of joint focus for the GAC and GRC during 2019 were:

### Sustainable control environment

With oversight from the GAC, the Group Management Board initiated a programme to change and enhance the control environment in a way that can be sustained. The purpose of this programme is to ensure there is clear understanding, accountability and ownership for internal controls and end-to-end processes to deliver operational quality and consistent outcomes for customers and simpler operation of controls for colleagues. The GAC provided constructive challenge to management proposals and received regular progress updates on the work streams. Improvements were measured and tracked through a new enterprise-wide non-financial risk forum with escalation paths into the GAC and GRC. During 2020, the GAC will focus on the new business update and restructuring, and how they impact the control environment.

### Financial reporting

The GAC reviewed and provided feedback on the assurance work and management's opinion on internal controls over financial reporting, as required by the Sarbanes-Oxley Act. In conjunction with the GRC, the GAC monitored the remediation of significant deficiencies and weaknesses in entity level controls raised by management and the external auditor. The GAC will continue to monitor the progress of remediation as well as efforts to integrate requirements of the Sarbanes-Oxley Act with the operational risk framework as part of the sustainable control environment programme.

For expected credit losses under IFRS 9, the GAC works with the GRC in reviewing and challenging the underlying economic scenarios, additional scenarios added by management and the reasonableness of the weightings applied to each scenario in order to understand the impact on the financial statements.

### Monitoring changes to regulatory requirements

The GAC approved an annual priorities plan to review management's response to current and future changes in regulatory requirements affecting financial reporting. In 2019, this included changes in the UK and Hong Kong corporate governance codes, interpretation of new accounting standards, industry-wide regulatory reform programmes and their impact on accounting judgements. The GAC will continue to monitor specific accounting issues identified during the year and future regulatory items that will impact the integrity of financial reporting, the Group and its relationships with regulators.

### Key financial metrics and strategic priorities

In exercising its oversight, the Committee assessed management's assurance and preparation of external financial reporting disclosures. In particular, the Committee provided feedback and challenge on the disclosures related to the monitoring and tracking of key financial metrics and strategic priorities.

In the third quarter of 2019, the Committee was involved at all stages in overseeing the disclosures that updated the market on the challenging revenue environment and the decision to update plans and set new financial targets.

### Whistleblowing and 'speak up' culture

The GAC received regular updates on the status of the Group's whistleblowing arrangements, how they operated and how they were enhanced during the year. The Committee focused on the key culture- and conduct-related themes emerging from whistleblowing cases and the end-to-end control processes that deliver reliable, timely conclusions. This included feedback to management to drive a stronger 'speak up' culture as part of the Group's commitment to develop and maintain a culture where employees can raise issues and concerns without fear of punishment, embarrassment or rejection.

During the year, concerted efforts were made in many areas of the Group to build greater trust between employees and leaders and to normalise the act of airing concerns openly and directly. The Committee was kept informed of progress of the whistleblowing enhancement programme, which included the strengthening of entity level controls, the roll-out of a third-party technology solution and additional training for line managers.

### Environmental, social and governance

The GAC received updates on future developments of the Group's ESG approach. The Committee monitored stakeholder feedback and reviewed management's gap analysis of Sustainalytics rating reports. The GAC considered best methods of assurance, presentation and alignment with the *Annual Report and Accounts* to allow stakeholders to gauge holistically HSBC's performance.

During the year, the Committee received reports from Global Internal Audit on the internal controls for sustainability risk.

### Long-term viability statement

In accordance with the UK Corporate Governance Code, the Directors carried out a robust assessment of the principal risks of the Group and parent company. The GAC considered the statement to be made by the Directors and concluded that the Group and parent company will be able to continue in operation and meet liabilities as they fall due, and that it is appropriate that the long-term viability statement covers a period of three years.

### Engagement with regulatory reform and review

The Committee held additional sessions to review and engage actively with the Competition and Markets Authority study into the statutory audit market, the Kingman review of the Financial Reporting Council and the Brydon review on the quality and effectiveness of audit. The Committee notes the importance of such reviews and proposals for reform to the work of the Committee in improving the quality of financial reporting and audit.

The Committee will continue to engage and monitor the proposals by the government to implement recommendations from these reviews.

**Sir Jonathan Symonds, CBE**

Chair

Group Audit Committee

18 February 2020

## Significant accounting judgements considered during 2019 included:

| Key area | Action taken |
|---|---|
| Goodwill | The GAC received reports on management's approach to goodwill impairment testing and challenged the approach and model used. The GAC also challenged management's key judgements on inputs to the calculations such as long-term growth rates and discount factors and the sensitivities of such judgements. A further key judgement was what cash flows were included or excluded within the goodwill tests for each cash generating unit ('CGU'), both in terms of compliance with accounting standards and also the reasonableness of the assumptions in the annual operating plan. The GAC also considered the reasonableness of the outcomes as a sense check against the annual operating plan and strategic objectives of HSBC. The GAC considered the outcomes in cases where the goodwill for a CGU was impaired and subsequently written off, and where sensitivities were tested and the CGU's goodwill was unimpaired and remained on the balance sheet. |
| Expected credit loss ('ECL') impairment | The GAC considered loan impairment allowances for personal and wholesale lending. Particular judgements included the effect of UK economic uncertainty, Hong Kong political uncertainty and the risk of escalation of trade tensions between the US and China on the measurement of ECL impairment. The GAC also considered disclosures relating to ECL in the year-end accounts. |
| Bank of Communications Co., Limited ('BoCom') impairment testing | During the year, the GAC considered the regular impairment reviews of HSBC's investment in BoCom. The GAC review included the sensitivity of the result of the impairment review to estimates and assumptions of projected future cash flows, regulatory capital assumptions and the model's sensitivity to long-term assumptions including the continued appropriateness of the discount rate. |
| Appropriateness of provisioning for legal proceedings and regulatory matters | The GAC received reports from management on the recognition and amounts of provisions, as well as the existence of contingent liabilities for legal proceedings and regulatory matters. Specific matters addressed included accounting judgements in relation to provisions and contingent liabilities arising out of: (a) investigations of HSBC's Swiss Private Bank by a number of tax administration, regulatory and law enforcement authorities; and (b) an FCA investigation into HSBC Bank's and HSBC UK Bank's compliance with the UK money laundering regulations and financial crime systems and controls requirements. |
| Valuation of defined benefit pension obligations | The valuation of defined benefit pension obligations involves highly judgemental inputs and assumptions, of which the most sensitive are the discount rate, pension payments and deferred pensions, inflation rate and changes in mortality. Different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or other comprehensive income. The GAC has considered the effect of changes in key assumptions on the HSBC UK Bank plc section of the HSBC Bank (UK) Pensions Scheme, which is the principal plan of HSBC Group. |
| Interest rate benchmark replacement | The GAC considered the accounting implications of benchmark interest rate replacement for hedge accounting relationships as at 31 December 2019, and management's decision to early-adopt amendments to accounting standards issued by the IASB during the year. These amendments introduced temporary exceptions from applying specific hedge accounting requirements under which interbank offered rates ('Ibors') are assumed to continue for the purposes of hedge accounting until such time as the transition uncertainty is resolved. At 31 December 2019, the uncertainty existed and therefore the temporary exceptions apply to all of the Group's hedge accounting relationships affected by the transition. The GAC also considered the expected accounting implications of the forthcoming transition to new risk free-rate benchmarks for financial instruments and noted that further amendments to accounting standards will be made dealing with transition and the resolution of uncertainty. |
| Quarterly and annual reporting | The GAC considered key judgements in relation to quarterly and annual reporting. It reviewed draft presentations to external analysts and key financial metrics included in HSBC's strategic actions. |
| Valuation of financial instruments | The GAC considered the key valuation metrics and judgements involved in the determination of the fair value of financial instruments. The GAC considered the valuation control framework, valuation metrics, significant year-end judgements and emerging valuation topics. |
| Tax-related judgements | The GAC considered the recoverability of deferred tax assets, in particular in the US and the UK. The GAC also considered management's judgements relating to tax positions in respect of which the appropriate tax treatment is uncertain, open to interpretation or has been challenged by the tax authority. |
| UK customer remediation | The GAC considered the provisions for redress for mis-selling of PPI policies in the UK and the associated redress on PPI commissions earned under certain criteria, including management's judgements regarding the effect of the time-bar for claims ending August 2019. In addition, the GAC monitored progress on the remediation of operational processes and associated customer redress. |
| Adjusted profit measures | Throughout the year, the GAC considered management's non-GAAP measures for adjusted profits. |

## Group Risk Committee

"The Group Risk Committee embraced proactive risk governance – through informed review and appropriate challenge – to reinforce effective risk management."

**Dear Shareholder**

I am pleased to present the Group Risk Committee ('GRC') report.

The Committee has responsibility for the oversight of enterprise risk management. Throughout 2019, the GRC embraced proactive risk governance – through informed review and appropriate challenge – to reinforce effective risk management.

During the year, the Committee strengthened its composition and skills and experience to ensure that it is well positioned to promote proactive risk governance. Dr José Antonio Meade Kuribreña joined the GRC with effect from 1 June 2019 and has brought a fresh perspective in multilateral governmental affairs and geopolitical developments from his base in Latin America. We also welcomed Kathleen Casey, who became a member of the GRC on 16 January 2020 after the Board approved the transition of financial crime risk management from the Financial System Vulnerabilities Committee ('FSVC') to the GRC. Kathy has had a long tenure as a FSVC member and brings insight into financial crime remediation as well as her regulatory and government service background to the GRC.

The Committee shaped its meeting agenda to focus on forward-looking and pressing risk issues, including credit risk; non-financial risk management; forward-looking capital and liquidity strategies; model risk management; climate-related risks; people risk and conduct; information and cybersecurity risks; and operational resilience. For each meeting, we organised 'deep dive and challenge' sessions to address one or more of the Group's top and emerging risks through active engagement from all three lines of defence: first line business owners, second line risk stewards and third line audit and assurance. Where possible, the GRC worked with senior management and subject matter experts to organise training, remedial and 'walk-through' sessions to raise the Committee's understanding of the underlying domain issues, ensuring the GRC was better prepared in its informed review and constructive challenge. Indeed, many of our 'deep dive' sessions start with the Committee's advance submission of forward-looking and strategic questions to first and second line presenters, addressing HSBC-specific challenges and cross-organisational dependencies.

### Membership

| | Member since | Meeting attendance in 2019 |
|---|---|---|
| Jackson Tai (Chair) | **Sept 2016** | **11/11** |
| José Antonio Meade Kuribreña[1] | **May 2019** | **4/6** |
| Heidi Miller | **Sept 2014** | **11/11** |
| Sir Jonathan Symonds | **April 2018** | **11/11** |
| Pauline van der Meer Mohr | **April 2018** | **11/11** |

1 *José Antonio Meade Kuribreña was unable to attend the meetings in July and November due to prior engagements that predated his appointment.*

The GRC continued to place high priority in engaging first line business owners in our review and challenge sessions to deepen our insight into the opportunity and attendant risks, to reaffirm ownership and accountability, and to seek resolution or close-out of issues. The participation of our senior business leaders, including the current and the former Group Chief Executive who between them attended four GRC meetings in 2019, reaffirmed the ownership and accountability of risks in the first line of defence and strengthened our holistic three lines of defence review of our most pressing risks.

The GRC also reviewed and challenged key regulatory processes, including the Group internal capital adequacy assessment process ('ICAAP'), individual liquidity adequacy assessment process ('ILAAP'), the Group recovery plan and both of the Bank of England's regulatory stress tests – the annual cyclical scenario and the biennial exploratory scenario. As a priority, the GRC engaged the Group's principal subsidiary risk committees and their chairs to form a holistic understanding of the Group's progress in these regulatory processes and concluded that they were of a satisfactory standard.

Throughout the year, we continued to advocate and support the Group's subsidiary accountability framework.

The connectivity between the GRC and the principal subsidiary risk committees continues to be strengthened through cross-attendance of meetings by the Chair and principal subsidiary risk committee chairs, a practice launched in 2017. During the year, the Chair attended principal subsidiary risk committee meetings in Hong Kong, Dubai, New York and Mexico City. We also actively encouraged the chairs of principal subsidiary risk committees to attend GRC meetings and governance events in person or electronically, and found their active participation facilitated the sharing of Committee materials, findings and best practices and enhanced the GRC's holistic oversight of risk management across the Group. (See 'Connectivity with principal subsidiary risk committees' below.)

In addition, the Chairs of the GRC and of the Group Audit Committee ('GAC') actively promoted the timely sharing of subject matter expertise and insight among principal subsidiary audit and risk committee chairs, non-executive Directors, and senior management through our three regional Audit and Risk Committee Chairs forums held in Asia, the Americas and EMEA. Besides advancing our oversight over enterprise risk management, these Audit and Risk Committee Chairs Forums also ensured stronger alignment of the priorities of the Group and of our principal subsidiaries. (See 'Audit and Risk Committee Chairs Forum' below.)

The GRC also took steps in 2019 to foster transparency and a better understanding of our risk governance progress by welcoming our principal regulator to one of our deep dive and challenge sessions and by inviting our regional regulators to address our regional Audit and Risk Committee Chairs Forums.

### Key responsibilities

The GRC has non-executive responsibility for the oversight of enterprise risk management, risk governance and internal control systems. In its holistic view of risk in 2019, the Committee was supported by the FSVC, the Board sub-committee responsible for overseeing risks relating to financial crime and financial system abuse. In January 2020, the GRC assumed direct responsibility for financial crime risk oversight from the FSVC.

The Committee's key responsibilities are:

- The Committee oversees and advises the Board on all risk-related matters, including financial risks, non-financial risks and the effectiveness of the Group's conduct framework.
- It advises the Board on risk appetite-related matters, including the ICAAP and ILAAP, as well as recovery and resolution planning.
- The Committee reviews the effectiveness of the Group's enterprise risk management framework and internal controls systems (other than internal financial controls overseen by the GAC).
- It undertakes a review and challenge of the Group's stress testing exercises.

### Activities in the year

In 2019, the GRC carried out the following activities:

- The Committee conducted an in-depth review and challenge on non-financial risk management and the Group's internal control environment, with deep dives into people risk and conduct, model risk management, IT resilience and governance, Cloud strategy, operational resilience, data management, end-to-end process and risk and control mapping. For the review of non-financial risks, internal controls and data management, the GRC and GAC worked closely to convene joint and coordinated review and challenge sessions. (See 'Collaborative oversight by GRC and GAC' below.)
- It reviewed the major financial risks affecting the Group, including retail and wholesale credit risk management, counterparty credit risk exposures to central clearing counterparties and climate change-related risks faced by the Group, as well as challenged management to be rigorous and forward looking in their strategies and approach, particularly in addressing horizontal dependencies for these financial risks, such as talent, data, analytics and modelling.
- It reviewed and challenged the assessment of the Group ICAAP and ILAAP programmes and engaged with Group management and principal subsidiary risk committee chairs in overseeing and evaluating the Group's forward-looking capital and liquidity strategies and capabilities, including Group liquidity risk management.
- The Committee conducted comprehensive reviews of the Group's participation in the Bank of England's annual cyclical scenario stress test and biennial exploratory scenario stress test, and provided challenges over the stress results, strategic management actions and lessons learned from the stress scenarios.
- The Committee conducted informed review and challenge of the alignment of risk and reward, satisfying itself that risk and compliance objectives and outcomes impacted the Group variable pay pool.
- It undertook its biannual risk appetite review and recommended the Group's 2020 risk appetite statement to the Board with enhancements to both financial and non-financial risk metrics.
- The Committee reviewed and challenged the 2019 Group recovery plan and satisfied itself with regards to the completeness of the plan and its consistency with the principles of the Group's risk appetite.
- It reviewed the Group's readiness to address major geopolitical developments, including the short and longer-term impact of trade tensions between the US and China on our Asia-Pacific franchise, and the contingency planning and our forward-looking business model following the UK's departure from the EU, including the migration of key client relationships and product capabilities to continental Europe. In the latter case, the Chair met with HSBC Bank plc and HSBC France leadership in Paris to understand our programme planning and risk mitigation.
- The Committee maintained throughout the year a deliberate focus on people risk, including diversity, conduct and culture issues. The GRC regularly monitored the Group's progress in remediating the market conduct issues underlying the 2018 deferred prosecution agreement with the US Department of Justice and the related 2017 Federal Reserve Bank Consent Order. The GRC also organised a Group Human Resources training session on workplace harassment.

### Focus of future activities

The GRC's focus for 2020 will include the following activities:

- The Committee plans to provide robust oversight and scrutiny over the execution risk of the strategic actions and business re-profiling announced with the 2019 financial results, and the impact of these actions on the Group's risk exposure, financial resources and sustainable control environment.
- It will monitor and appropriately challenge management's plans to manage and mitigate the impacts of geopolitical risks on our operations and portfolios in Asia-Pacific, the Middle East and the rest of the world.
- The Committee will ensure the continuity in financial crime risk oversight after assuming the responsibility from the FSVC, with a focus on sanctions and transaction monitoring.
- It will continue to monitor developments and enhancements in the Group's management of conduct and culture, as well as people risk management. As a matter of priority, the GRC will oversee progress in remediating the market conduct issues underlying the 2018 deferred prosecution agreement with the US Department of Justice and the related 2017 Federal Reserve Board Consent Order.
- It will continue reviewing and challenging management's progress in developing and implementing our operational resilience strategy, the key elements of which include third-party risk management, data management, IT governance, Cloud strategy and cybersecurity risk.
- The Committee will also focus on the Group's forward-looking strategy and management actions to quantify and mitigate climate change-related risks.

### Committee governance

In carrying out its responsibilities, the GRC is supported by the Group Chief Risk Officer, Group Chief Financial Officer, Group Head of Internal Audit, Group Chief Compliance Officer and Global Head of Risk Strategy, all of whom regularly attend GRC meetings to contribute their subject matter expertise and insight. They facilitate Committee members' review and challenge of current and forward-looking risk issues, working together with business, functional and regional leaders across all three lines of defence. The Chair and members of the GRC also regularly meet with the Group Chief Risk Officer, the Group Head of Internal Audit and external auditors PwC without management present.

### Committee evaluation and effectiveness

The Committee is committed to regular, independent evaluation of its own effectiveness. During 2019, the GRC undertook an internal committee effectiveness exercise, which concluded that the GRC continued to operate effectively and in line with regulatory requirements.

The Committee was also subject to a wider externally facilitated Board effectiveness review during 2019. Recommendations from the review, including joint recommendations with the GAC, were tracked and implemented. Further details on this can be found on page 170.

### How the Committee discharges its responsibilities

Since 2017, more than half of each Committee meeting has been dedicated to deep dives and challenge of the most pressing risks facing the Group. These sessions deepened the GRC members' understanding of the priority risks and issues and strengthened the GRC's oversight and challenge through active engagement with all three lines of defence.

As well as deep dive sessions, the GRC reviewed regular risk and independent audit reports, which provided an overview of the Group's risk profile and highlighted the material current and forward-looking risks and issues, such that the Committee could effectively identify any areas that required more of the GRC's attention.

After assuming the oversight responsibility for people risk and employee conduct in 2018, the GRC continued to exercise its governance in this area, supported by the Group Chief Human Resources Officer and Group business heads, including overseeing the effective delivery of the Global Markets conduct enhancement programme as well as the remediation plan addressing the issues set out in the 2018 FX deferred prosecution agreement with the US Department of Justice and the 2017 Consent Order with the Federal Reserve Board.

Following the assumption of the responsibility for information security and cyber risk in 2018, the Committee continued to make headway in the improvement of the Group's cybersecurity and management of cyber risks. The GRC received periodic reports from management throughout 2019 on the cyber risks facing the Group and the mitigating actions in place. Additionally, the Committee's independent cybersecurity adviser, Andrew France, was invited to attend every GRC meeting to provide his advice and insight with particular regard to cyber issues.

### Activities outside formal meetings

The GRC had a number of activities outside its regular meeting cycle to facilitate more effective oversight of the risks impacting the Group. The chairs of principal subsidiary risk committees were also invited. Activities included, among others:

- a stress test tutorial focusing on material models and their limitations;
- a financial crime awareness session led by Group Chief Compliance Officer Colin Bell and the Financial Crime Compliance leadership team;
- a workplace harassment training session led by senior leaders in Human Resources; and
- quarterly cybersecurity consultation sessions and monthly written updates on cyber developments such as cyber crime, legislation and technology provided by the GRC's cybersecurity adviser, Andrew France.

### Collaborative oversight by GRC and GAC

The GRC worked closely with the GAC to ensure that there are no gaps in risk oversight, and that any areas of significant overlap are appropriately addressed by inter-committee communication or joint meetings where appropriate. The GRC and GAC Chairs are members of both committees and engage on the agendas of each other's committees to further enhance connectivity, coordination and flow of information.

Three areas of collaborative oversight by the GRC and the GAC during 2019 were:

#### Sustainable control environment

During 2019, the GRC undertook in-depth reviews of a number of topics relating to the Group's internal controls and the necessary culture change needed to improve the control environment. Management's progress and forward-looking plan to embed non-financial risk management were reviewed and challenged by the GRC, with a focus on first line ownership and customer outcomes. The Committee also carried out an extensive review of the Group's operational resilience strategy and progress in end-to-end process, and risk and control mapping, which highlighted the importance of ensuring the resilience of our critical business services and setting impact tolerance for inevitable service disruption.

#### Financial risk

The GRC provided informed review and constructive challenge to the Group's regulatory submissions of ICAAP and ILAAP processes. It also proactively reviewed progress of the Group's liquidity risk management improvement plan. It continued to maintain oversight of the Group's regulatory and internal stress testing programmes with specific review and challenge of the key assumptions, strategic management actions and outcomes of the principal tests conducted. Through these reviews, the Committee assessed each risk facing the Group to determine the principal risks to its long-term viability, including those that would threaten its solvency and liquidity.

#### Monitoring changes to regulatory requirements

During 2019, the GRC undertook review and challenge of a number of risk areas for which the Group has regulatory obligations or is facing regulatory change. These included model risk, climate change-related risk and operational resilience. In particular, the GRC convened a models limitation tutorial session and conducted an extensive review on model risk management, which was a high priority area under regulatory scrutiny. The Committee also received periodic updates on the progress against the GRC-approved annual Compliance function strategic plan, including analysis of emerging compliance risks, compliance-related policy updates and the Group's relationship with the regulator.

### Connectivity with principal subsidiary risk committees

The risk committees of principal subsidiaries provided half-yearly confirmations to the GRC. These certifications confirmed that the principal subsidiary risk committees had challenged management on the quality of the information provided, reviewed the actions proposed by management to address any emerging issues or trends indicating material divergence from the Group's risk appetite and that the risk management and internal control systems in place were operating effectively.

In 2019, the GRC proactively encouraged principal subsidiary risk committee chairs' participation in regular GRC meetings and special review or learning sessions throughout the year. As a result, there has been an improvement in the connectivity between the Group and principal subsidiary risk committees as well as within the risk committees themselves. Since 2017, the GRC Chair's attendance at principal subsidiary risk committees' meetings in Asia, UK, Europe, US, Latin America, Canada and the Middle East also furthered this information sharing and connectivity.

### Audit and Risk Committee Chairs Forum

The Audit and Risk Committee Chairs Forum was held for each of the three key regions where the Group operates, of Asia, EMEA and the Americas. In 2019, it continued to be the collaborative event that shared risk and audit subject matter expertise, aligned Group and subsidiary priorities, supported the subsidiary accountability framework and promoted two-way connectivity between the Group and principal subsidiary risk and audit committees. The Audit and Risk Committee Chairs Forums were jointly hosted by the GAC and GRC Chairs and attended by members of the GAC and GRC, Group Management Board members, the chairs of principal and regional subsidiary audit and risk committees, together with non-executive Directors and senior management from these subsidiaries.

At these events, subject matter expertise was shared through interactive discussions and presentations by Group senior management. The aim was to focus on best practices among subsidiaries, promote connectivity and consistency, and reinforce a holistic view across the Group's high priority audit and risk issues. The topics covered at these forums included:

- the Group's business update from the Group Chief Executive and implications for the subsidiaries;
- the regulator's perspective on progress and challenges for the HSBC franchise;
- top risks and significant issues that were reviewed and challenged at the GRC and GAC, such as sustainable control environment, accelerating the embedding of non-financial risk management, credit risk management, capital and liquidity constraints, model risk management and operational resilience;
- regional leadership's views on improving a 'speak up culture' and on HSBC's core values, behaviour, conduct and culture; and
- the GRC's and GAC's progress in 2019 and key priorities in 2020.

The Audit and Risk Committee Chairs Forums provided an opportunity for the GRC to understand locally specific issues with potential read-across to other areas and regions of the Group. It also served to help the GRC learn from the experience and different perspectives provided by the chairs of subsidiaries' risk committees in addressing top and emerging areas of risk and agree and endorse a consistent approach to risk management across the Group.

Looking forward to 2020, the GRC will continue its progress in subsidiary risk committee connectivity and three lines of defence engagement. The GRC will further consider Libor, operational resilience, conduct issues and execution risk connected to strategic change over the course of 2020.

**Jackson Tai**

Chair

Group Risk Committee

18 February 2020

## Financial System Vulnerabilities Committee

"Regulatory approval to demise the Committee reflected significant effort by the Committee and Group to bring about a cultural change in the awareness and remediation of financial crime risk."

### Dear Shareholder

I am pleased to present the Financial System Vulnerabilities Committee ('FSVC') report.

The Committee provides oversight of matters relating to financial crime and financial system abuse, including anti-money laundering, sanctions, terrorist financing, proliferation financing and anti-bribery and corruption. It also provides advice to the Board on the Group's framework of controls and procedures that are designed to identify areas where HSBC and the financial system more broadly may become exposed to financial crime or system abuse.

### Committee chair transition

On 12 April 2019, Lord Evans of Weardale resigned as a Director and I was appointed as Chair of the FSVC to ensure continuity, having been a member of the Committee since September 2016. In preparation for the transition, the Committee received reports on its achievements and areas of potential focus. The change of Chair and non-Director membership, detailed below, supported a programmed transition of financial crime oversight to the Group Risk Committee ('GRC').

### Committee membership

There were several changes to the Committee's membership during 2019. Firstly, we welcomed Kathleen Casey back to the Committee's membership.

In line with the maturity of the financial crime risk agenda and the governance simplification process, we took the decision to reduce the number of advisers. Lord Hogan-Howe, John Raine, David Irvine and Dave Hartnett all stood down as non-Director members of the Committee following its meeting on 10 April 2019. They continued to work with the wider Group and maintained focus on regional financial crime risk throughout 2019.

### Membership

| | Member since | Meeting attendance in 2019 |
|---|---|---|
| **Non-executive Directors** | | |
| Jackson Tai (Chair)[1] | **Sept 2016** | **5/5** |
| Kathleen Casey[2] | **April 2019** | **4/4** |
| Laura Cha | **April 2018** | **5/5** |
| Lord Evans of Weardale[3] | **May 2014** | **2/2** |
| **Co-opted non-Director members[4]** | | |
| Nick Fishwick CMG | **Jan 2013** | **5/5** |
| Dave Hartnett CB[5] | **Feb 2013** | **2/2** |
| Lord Hogan-Howe[5] | **Sept 2017** | **2/2** |
| David Irvine AO[5] | **Nov 2016** | **2/2** |
| John Raine[5] | **Sept 2017** | **2/2** |
| The Honourable Juan Zarate[6] | **Jan 2013** | **4/5** |

1 *Jackson Tai was appointed as Chair of the FSVC on 12 April 2019.*
2 *Kathleen Casey also served on the FSVC from 1 March 2014 to 20 April 2018.*
3 *Lord Evans of Weardale stepped down as Chair of the FSVC on 12 April 2019.*
4 *The co-opted non-Director members support the Committee's work and among them have extensive experience in geopolitical risk, financial crime risk, international security and law enforcement matters.*
5 *Dave Hartnett CB, Lord Hogan-Howe, David Irvine AO and John Raine CMG OBE all stepped down from the FSVC on 10 April 2019.*
6 *The Honourable Juan Zarate did not attend the Committee meeting in September due to a prior engagement.*

### Transition of financial crime oversight

On 18 December 2019, the UK's FCA gave formal approval for the oversight of financial crime to transition from the FSVC to the GRC. On 15 January 2020, the final FSVC meeting was held, during which the Committee discussed the handover of financial crime oversight to the GRC. Following this, a joint meeting of the FSVC and GRC was held to discuss the assumption of responsibility by the GRC.

Board approval for the transition of financial crime oversight was given on 16 January 2020 and the FSVC was formally demised. To ensure continuity in the responsibilities of financial crime oversight, Kathleen Casey became a member of the GRC on 16 January 2020. The non-Director members of the FSVC were assigned as advisers to the GRC, attending relevant financial crime remediation items on the GRC's agenda.

Financial crime will now be managed in line with other risk types managed by the GRC and appropriate coverage of financial crime will be included in its agenda.

### Meetings

The Committee had five scheduled meetings during 2019. The Committee's meetings are aligned to the Board meeting cycle and occur in advance so that any updates can be made at Board meetings. The Chair of the FSVC provides updates as a standing agenda item at Board meetings.

## Activities during the year

In 2019, the Committee received regular reports from management on areas within its scope, including financial crime, internal audit findings, legal matters and operational effectiveness.

Alongside these regular reports, the Committee's activities focused on other areas during the year. The Committee held 'Spotlight' sessions with relevant executives to explore these additional areas. Some of these sessions included discussion regarding:

- how governance and escalation procedures are used to mitigate financial crime risk within the Group;
- cross-border trade, finance flows and growth in digital financial services in the market and how this applies to the Group;
- how the Group manages financial crime risk and what the associated controls are in relation to multinational corporations. Where the Group has a relationship with a multinational corporation, what financial crime risk controls are in place to govern these relationships;
- financial crime risk management and supporting governance structures within HSBC UK, HSBC Bank plc, the Latin America region and the Asia-Pacific region;
- how the Group kept up to date on developments of Office of Foreign Assets Control sanctions, the broader sanctions arena and on sanctions controls across the Group's global business;
- reports from Committee advisers following their visits to various jurisdictions;
- the development of HSBC's principles, and associated governance, on the ethical use of 'Big Data' and machine learning models;
- developments related to the UK's exit from the EU, including the potential financial crime risks associated with it, and the evolving challenges around fraud;
- updates from the Skilled Person, as approved by the UK's FCA and PRA, in February and July, as part of which private sessions were held with the Committee members;
- progress regarding HSBC's transaction monitoring programme;
- updates on the governance and escalation principles in place across the Group from the Group Company Secretary;
- a review of enterprise-wide risk assessment reports on anti-money laundering, anti-bribery and corruption and sanctions; and
- a review of its own terms of reference and agreeing that no changes were required.

## Activities outside formal meetings

The Committee held, or facilitated, a number of activities outside its regular meeting cycle to provide further oversight of matters relating to financial crime and financial system abuse.

The FSVC Chair, alongside senior executives, met with an FCA supervision team to discuss industry-wide topics, including financial crime remediation.

In May 2019, the Committee held joint training sessions with the GRC in preparation for the transition of financial crime oversight to the GRC. The Group Company Secretary and the Group Chief Compliance Officer respectively held workshops with country CEOs and the chairs of subsidiary risk and audit committees to discuss financial crime, conduct, behaviour and issues relating to culture.

In September 2019, the FSVC members undertook on-site visits to HSBC's Mexican operations, which included a branch visit. The purpose of these on-site visits was to review the progress and learnings of our financial crime remediation programme since 2012, and to share regional forward-looking initiatives on insider risks and fraud.

The FSVC Chair visited a number of jurisdictions, including Hong Kong and the UAE, to discuss emerging financial crime topics with country senior managers. The co-opted non-Director members and the Group's financial crime advisers met in November to discuss current trends and topics within the financial crime arena.

On 22 January 2020, the GRC Chair (following the formal demise of the FSVC on 17 January 2020) joined the Global Head of Financial Crime Compliance and Group Money Laundering Reporting Officer Ralph Nash, Global Head of Sanctions Allison Mackenzie, and advisers to the Group GRC on financial crime Juan Zarate and Nick Fishwick, in launching a full-day sanctions training event in Hong Kong for Asia-Pacific non-executive Directors, senior managers, client relationship officers and support officers.

**Jackson Tai**

Chair

Financial System Vulnerabilities Committee

18 February 2020

# Directors' remuneration report



All disclosures in the Directors' remuneration report are unaudited unless otherwise stated. Disclosures marked as audited should be considered audited in the context of financial statements taken as a whole.

## Membership

| | Member since | Meeting attendance in 2019 |
|---|---|---|
| Pauline van der Meer Mohr (Chair) | 1 January 2016 | 7/7 |
| Henri de Castries[1] | 26 May 2017 | 6/7 |
| David Nish | 26 May 2017 | 7/7 |
| Irene Lee | 20 April 2018 | 7/7 |

*1 Henri de Castries was unable to attend the April meeting due to prior commitments.*

**Dear Shareholder**

I am pleased to present our 2019 Directors' remuneration report on behalf of the members of the Group Remuneration Committee.

Our new remuneration policy received strong support at the 2019 AGM, with more than 97% of the votes cast in favour of the policy. The first year of implementation of this policy was in 2019.

I have set out below a summary of our 2019 performance, key decisions made by the Committee and how the Committee has applied the new policy.

## Performance and pay for 2019

In 2019, we faced a challenging business environment, with revenue growth softer than we anticipated at the start of the year. Our reported profit before tax of $13.3bn was down 33%, which included a $7.3bn goodwill impairment. Adjusted profit before tax of $22.2bn increased by 5%. Reported revenue of $56.1bn increased by 4%, while adjusted revenue of $55.4bn was 6% higher, with strong performances in our RBWM and CMB businesses, partly offset by lower revenue in GB&M. Adjusted operating expenses increased by 3%, reflecting ongoing cost discipline while continuing to invest, resulting in positive adjusted jaws of 3.1%. We delivered a return on tangible equity ('RoTE') of 8.4%, a reduction of 20 basis points compared with 2018.

The Group announced a dividend of $0.51 per ordinary share, and in 2019 returned a total of $1bn to shareholders through share buy-backs.

The Group Remuneration Committee reviewed and agreed the Group variable pay pool of $3,341m, taking into account performance against financial and non-financial metrics set out in the Group risk appetite statement, including conduct, and targets set out in our annual operating plan. This represents a 3.8% decrease on the 2018 variable pay pool.

In setting the pool, the Committee applied:

- a reduction of $206m for the fines, penalties and cost of customer redress faced by the Group; and
- a discretionary reduction of $999m taking into consideration financial performance being lower than the targets we had set at the start of the year and certain non-financial risk metrics, where performance was outside our risk appetite.

We expect all our people to reflect our values in how they behave and conduct business. We are committed to delivering fair outcomes for our customers, and to ensuring we act with integrity. The personal conduct of our people is critical to our ability to live up to these commitments. We recognise and reward exceptional conduct demonstrated by our employees. We also discourage poor conduct and inappropriate behaviour that is not in keeping with our values, or which exposes us to financial, regulatory and reputational risk. We do this through:

- the use of behaviour and performance ratings for all employees, which directly influence pay outcomes;
- positive adjustments to variable pay for individuals who have exhibited exemplary conduct and who went the extra mile to courageously do the right thing (totalling $9.2m in 2019);
- our global recognition programme, where our employees can recognise peers and reward positive behaviours in a real-time, visible way; and
- reductions in variable pay where there are cases of inappropriate individual conduct and behaviours (totalling $2.3m in 2019).

## Executive Director changes

On 5 August 2019, Noel Quinn was appointed as interim Group Chief Executive after John Flint stepped down. Marc Moses stepped down as an executive Director and Group Chief Risk Officer on 31 December 2019.

All remuneration decisions made in respect of these changes were in accordance with the policy approved by the shareholders.

Noel Quinn's base salary, fixed pay allowance and cash in lieu of pension were set at the amounts approved by shareholders for the Group Chief Executive role at the 2019 AGM. He was also eligible to be considered for variable pay consisting of an annual incentive and a long-term incentive ('LTI') award.

In accordance with our approved remuneration policy and contractual terms agreed, both John Flint and Marc Moses have been designated as good leavers taking into consideration John Flint's and Marc Moses' 30 and 14 years of service with HSBC, respectively. John Flint's and Marc Moses' good leaver statuses are conditional upon satisfaction of our non-compete provisions under which they cannot take up roles with a defined list of competitor financial services firms for two years after they cease employment with HSBC. As good leavers, they were eligible to be considered for 2019 annual incentive awards based on the 2019 scorecard outcome. Their unvested awards will continue to vest on their scheduled vesting dates and the vesting of any LTI awards granted to them will be pro-rated for time spent in employment with the Group during the performance period, following the performance assessment. Neither John Flint nor Marc Moses has been granted LTI awards for 2019. Further details are set out on page 198.

## Key remuneration decisions for executive Directors

In March 2019, the Committee decided to reduce the cash in lieu of pension allowance for new executive Directors from 30% of base salary to 10% of base salary. The change was made to ensure this allowance for new executive Directors, as a percentage of salary, is not more than the maximum contribution rate, as a percentage of salary, that HSBC could make for a majority of employees who are defined contribution members of the HSBC Bank (UK) Pension Scheme. The current executive Directors also voluntarily agreed to have their allowance reduced to 10% of salary with effect from 1 April 2019. This change has been positively received by our shareholders.

The annual scorecards of our executive Directors were aligned to the delivery of our strategic priorities, as set out on page 192. As we did not achieve all of our 2019 financial and strategic targets, the 2019 annual incentive scorecard outcomes for our Group Chief Executive and Group Chief Risk Officer were lower than the 2018 scorecard outcomes. The 2019 annual incentive scorecard outcome was 66.4% for Noel Quinn (2018 Group Chief Executive scorecard outcome: 75.7%), and 66.3% for Marc Moses (2018 outcome: 89.0%). For Ewen Stevenson, the scorecard outcome was 77.5% taking into account performance against the financial targets and management of the Global Finance function. The annual incentive scorecard outcome for John Flint was 61.4%, reflecting the lower outcomes on non-financial objectives in the first half of 2019. The annual incentive awards for Noel Quinn and John Flint were determined based on the outcome of the 2019 scorecard measures set for the Group Chief Executive and then pro-rated for time spent by them as Group Chief Executive during 2019. Further details are provided on page 192.

The three-year performance period for the 2016 LTI award ended on 31 December 2019. The scorecard outcome for this award was assessed at 72.7%, which included assessment of performance against return on equity, adjusted jaws and relative total shareholder returns ('TSR') targets that were set at the start of the performance period. The awards after adjustment of the performance outcome, and time spent in employment during the performance period by former executive Directors, will vest in five equal annual instalments and will be subject to a six-month post-vesting retention period.

In determining the 2019 annual incentive and the 2016 LTI outcome, the Committee also took into consideration the overall performance of the Group using a number of internal and external measures, including profit before tax, RoTE, share price and TSR, to consider if any adjustments should be made to the formulaic scorecard outcomes. The Committee determined that the scorecard outcomes appropriately reflected the financial results and determined no discretionary adjustments were required.

The Committee also granted Ewen Stevenson an LTI award for 2019, taking into consideration his 2019 performance. This award will also be subject to a three-year forward-looking performance period ending on 31 December 2022. Taking into account feedback received on our 2018 LTI scorecard and discussions with investors, we have included a relative TSR measure. The 2019 LTI scorecard will consist of RoTE, relative TSR and customer measures with each given equal weighting. We believe these measures align the reward of our executives with our financial performance and the interest of our shareholders. Details of the LTI award are set out on page 195. The Committee has not granted an LTI award to Noel Quinn given he has been in an interim capacity in the Group Chief Executive role. To meet regulatory requirements, 60% of his variable pay will be deferred and vest in equal annual instalments between the third and seventh anniversary of the grant. At least 50% of his total variable pay will be in shares, which will be subject to a one-year retention period after vesting.

We have increased the base salary of our executive Directors by 2.5%, in line with the average increase for our Group employees.

## Investor consultation

Regular dialogue with our shareholders, even outside of policy vote years, is important to ensure our remuneration policy operates as intended. In 2019, we met with a number of our significant shareholders and proxy voting agencies to hear their views on the implementation of our new policy. We found this engagement useful. There was a preference towards the use of a relative measure in the LTI scorecard and the use of firm-specific environmental targets in executive Directors' scorecards. Based on this feedback, the 2019 LTI includes a TSR measure and the 2020 annual incentive scorecards of executive Directors include an environment measure linked to our commitment to reducing carbon emissions.

## Review of workforce remuneration matters

Under the PRA's Senior Managers Regime, as the Chair of the Committee I have prescribed responsibilities for overseeing the development and implementation of the Group's remuneration framework. In line with these prescribed responsibilities and the provisions of the UK Corporate Governance Code in 2019, the Committee continued to review the effectiveness of the remuneration framework for our overall workforce, including through feedback received from the employee pay review survey. The survey showed that there has been an improvement in employees' understanding of how their pay is determined, both in terms of their own performance and behaviour as well as business performance. A majority of the employees who responded to the survey thought that their managers recognised positive performance and behaviour and that there is recognition for acting appropriately with regards to risk and compliance. The survey results were also used to determine the 2019 priorities, which included simplifying decision making for managers to enable them to make informed pay decisions and enhancing the frequency and quality of performance and development conversations.

As part of the year-end pay review, the Committee reviewed results of remuneration outcomes across the Group to ensure they were in line with our pay principles. These included details of outcomes by performance, behaviour ratings and a focus on diversity and outcomes for our junior employees. The Committee also reviewed variable pay adjustments. This informs the Committee on the effectiveness of our remuneration framework and whether our framework aligns rewards with our values.

An overview of our remuneration principles and the wider employee remuneration policy is set out on page 204.

## Diversity and inclusion

Diversity is a critical enabler of our business strategy and all Group employees have a role to play in shaping an inclusive culture. Our approach to pay is designed to attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience.

In June, we published our 2019 UK Gender Pay Gap report and it is clear from our aggregate UK-wide median gender pay gap of 47.8% that we have more work to do. The biggest driver of our UK gender pay gap is the shape of our workforce. We have a predominance of women at the more junior levels with fewer women in senior leadership roles.

Our commitment to improving the gender balance of our workforce has resulted in the implementation of a three-part plan, which includes the following actions:

- incorporating aspirational gender diversity targets in the performance scorecards of our Group Management Board;
- requiring gender-diverse shortlists for all external senior leadership hires to support balanced hiring; and
- introducing a new framework setting out our vision and principles for flexible working.

We have updated our reward practices to increase transparency and consistency. We remain confident our approach to pay produces fair outcomes and will continue to conduct robust reviews and monitor pay data to reduce the risk of any bias impacting our processes. If pay differences are identified that are not due to an objective, tangible reason such as performance or skills and experience, we make adjustments.

## Our annual report on remuneration

As Chair of the Committee, I hope you will support the 2019 Directors' remuneration report.

**Pauline van der Meer Mohr**

Chair

Group Remuneration Committee

18 February 2020

## Group Remuneration Committee

The Group Remuneration Committee is responsible for setting the overarching principles, parameters and governance of the Group's remuneration framework for all employees, and the remuneration of executive Directors and other senior Group employees. The Committee regularly reviews the framework in the context of consistent and effective risk management, and the regulatory requirements of multiple jurisdictions.

No Directors are involved in deciding their own remuneration. All members of the Committee are independent non-executive Directors of HSBC Holdings. A copy of the Committee's terms of reference can be found on our website at www.hsbc.com/our-approach/corporate-governance/board-committees.

### Activities

The Committee met seven times during 2019. The following is a summary of the Committee's key activities during 2019.

Details of the Committee's key activities

| Executive Directors | All employees |
|---|---|
| • Approved Directors' remuneration report<br>• Considered executive Director remuneration policy matters, including key principles for remuneration policy review, Directors' remuneration policy alternatives and structure<br>• Consulted with key shareholders and proxy advisory bodies on executive Director remuneration matters, including policy and structure<br>• Reviewed and approved executive Director remuneration matters, including departure and appointment terms<br>• Reviewed and approved scorecards and pay proposals | • Approved 2018/2019 performance year pay review matters<br>• Reviewed remuneration policy effectiveness<br>• Received updates on notable events, regulatory and corporate governance matters<br>• Reviewed and approved 2019 Material Risk Taker ('MRT') identification approach and outcomes of MRT review<br>• Approved 2019 regulatory submissions<br>• Reviewed attrition data and plans to address areas of concerns<br>• Reviewed UK Gender Pay Report |

### Advisers

The Committee received input and advice from different advisers on specific topics during 2019. Deloitte LLP ('Deloitte') was re-appointed by the Committee in 2019 as an objective, independent adviser to support the Committee on specific remuneration matters for executive Directors. The Committee made the re-appointment after considering invited proposals from Deloitte and two other consultancy firms. Deloitte provided benchmarking data on remuneration policy matters and independent advice to the Committee. The Committee may request ad hoc assistance from Deloitte. Deloitte also provided tax compliance and other advisory services to the Group.

The Committee also received advice from Willis Towers Watson on market data and remuneration trends for senior management. Willis Towers Watson was appointed as remuneration advisers by management after considering invited proposals from similar consultancy firms. It provides actuarial support to Group Finance and benchmarking data and services related to benefits administration for our Group employees. To ensure the advice from Deloitte and Willis Towers Watson was objective, the Committee required the advice to be independent and distinct from any internal review and analysis on remuneration policy matters. The Committee was satisfied the advice provided by Deloitte and Willis Towers Watson was objective and independent in 2019. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

For 2019, total fees of £194,650 and £89,251 were incurred in relation to remuneration advice provided by Deloitte and Willis Towers Watson, respectively. This was based on pre-agreed fees and a time-and-materials basis.

### Attendees and interaction with other Board committees

During the year, Noel Quinn as the interim Group Chief Executive and John Flint as the former Group Chief Executive provided regular briefings to the Committee. In addition, the Committee engaged with and received updates from the following:

- Mark Tucker, Group Chairman;
- Ewen Stevenson, Group Chief Financial Officer;
- Marc Moses, Group Chief Risk Officer until 31 December 2019;
- Stuart Levey, Chief Legal Officer;
- Charlie Nunn, Chief Executive Officer, RBWM;
- Elaine Arden, Group Chief Human Resources Officer;
- Alexander Lowen, Group Head of Performance and Reward;
- Colin Bell, Group Chief Compliance Officer;
- Pam Kaur, Group Chief Risk Officer since 1 January 2020 and former Group Head of Internal Audit;
- Ruth Horgan, Global Head of Regulatory Compliance;
- Aileen Taylor, Group Company Secretary and Chief Governance Officer;
- Richard Gray, interim Group Company Secretary; and
- Ben Mathews, former Group Company Secretary.

The Committee also received feedback and input from the Group Risk Committee, the Financial System Vulnerabilities Committee and Group Audit Committee on risk, conduct and compliance-related matters relevant to remuneration.

### Implementation of remuneration policy for executive Directors

The Committee reviewed and considered whether the 2019 remuneration outcomes appropriately reflected the performance achieved during 2019 and whether it should exercise any discretion to the formulaic scorecard outcomes. Taking into consideration the overall performance of the Group using a number of internal and external measures, including profit before tax, RoTE, share price and total shareholder returns, the Committee considered that our remuneration policy has operated as intended and the scorecard outcomes reflected the performance achieved. For further information of the annual incentive and LTI scorecard outcomes, see page 192.

### Review of workforce remuneration and related policies

The Committee reviews the effectiveness of the remuneration framework for our overall workforce and the results of remuneration outcomes across the Group to ensure they are in line with our pay principles (as set out on page 204). These included details of variable remuneration adjustments made as well as information on reward outcomes by performance and behaviour ratings. The Committee uses this information to assess the effectiveness of our remuneration framework and whether our framework aligns employee rewards with our values.

### Engagement with shareholders

During 2019, the Committee engaged with key shareholders to hear their views on implementation of our new policy. For further information, see the Chair's letter on page 184.

## Our approach to Directors' remuneration

This section summarises our remuneration policy for executive and non-executive Directors. The policy was approved at the AGM on 12 April 2019 and is intended to apply for three performance years until the AGM in 2022. The full remuneration policy, including the policy on payment for loss of office, can be found on pages 175 to 184 of our *Annual Report and Accounts 2018* and the Directors' Remuneration Policy Supplement, which is available under Group Results and Reporting in the Investor Relations section of www.hsbc.com.

## Remuneration policy summary – executive Directors

| Elements and objectives | Operation | Implementation in 2020 |
|---|---|---|
| **Base salary**<br>To attract and retain key talent by being market competitive and rewarding ongoing contribution to role. | • Base salary is paid in cash on a monthly basis.<br>• Other than in exceptional circumstances, the base salary for the current executive Directors will not increase by more than 15% above the level at the start of the policy period in total for the duration of the policy. | Base salary for Noel Quinn and Ewen Stevenson will increase by 2.5%, in line with the increase for Group employees. With the increase, the base salary from 1 March 2020 will be as follows:<br>• Noel Quinn: £1,271,000<br>• Ewen Stevenson: £741,000 |
| **Fixed pay allowance ('FPA')**<br>To deliver a level of fixed pay required to reflect the role, skills and experience of the Directors and to maintain a competitive total remuneration package for retention of key talent. | • The FPA is granted in instalments of immediately vested shares.<br>• On vesting, shares equivalent to the net number of shares delivered (after those sold to cover any income tax and social security) are subject to a retention period and released annually on a pro-rata basis over five years, starting from the March immediately following the end of the financial year for which the shares are granted.<br>• Dividends are paid on the vested shares held during the retention period. | No change from 2019. FPA for 2020 will be as follows:<br>• Noel Quinn: £1,700,000<br>• Ewen Stevenson: £950,000 |
| **Cash in lieu of pension**<br>To attract and retain key talent by being market competitive. | • Cash in lieu of pension is paid on a monthly basis as 10% of base salary. | • No change to percentage of base salary. |
| **Annual incentive**<br>To drive and reward performance against annual financial and non-financial objectives that are consistent with the strategy and align to shareholder interests. | • The maximum opportunity is up to 215% of base salary.<br>• Annual incentive performance is measured against an individual scorecard.<br>• At least 50% of any award is delivered in shares, which are normally immediately vested.<br>• On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and security payable) will be held for a retention period of up to one year, or such period as required by regulators.<br>• Awards will be subject to clawback (i.e. repayment or recoupment of paid vested awards) for a period of seven years from the date of award, extending to 10 years in the event of an ongoing internal/regulatory investigation at the end of the seven-year period. Any unvested awards will be subject to malus (i.e. reduction and/or cancellation) during any applicable deferral period.<br>• The Committee retains the discretion to:<br>– apply a longer retention period;<br>– increase the proportion of the award to be delivered in shares; and<br>– defer the vesting of a portion of the award. | • See page 191 for details of performance measures. |
| **Long-term incentive ('LTI')**<br>To incentivise sustainable long-term performance and alignment with shareholder interests. | • The maximum opportunity is up to 320% of base salary.<br>• The LTI is granted if the Committee considers that there has been satisfactory performance over the prior year.<br>• The LTI is subject to a forward-looking three-year performance period from the start of the financial year in which the awards are granted.<br>• At the end of the performance period, awards will vest in five equal instalments, with the first vesting on or around the third anniversary of the grant date and the last instalment vesting on or around the seventh anniversary of the grant date.<br>• On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and security payable) will be held for a retention period of up to one year, or such period as required by regulators.<br>• Awards are subject to malus provisions prior to vesting. Vested shares are subject to clawback for a period of seven years from the date of award, extending to 10 years in the event of an ongoing internal/regulatory investigation at the end of the seven-year period.<br>• Awards may be entitled to dividend equivalents during the vesting period, paid on vesting. Where awards do not receive dividend equivalents, the number of shares awarded can be determined using the share price discounted for the expected dividend yield. | • Details of performance measures and targets for awards to be made in 2020 (in respect of 2019) are set out on page 195. |

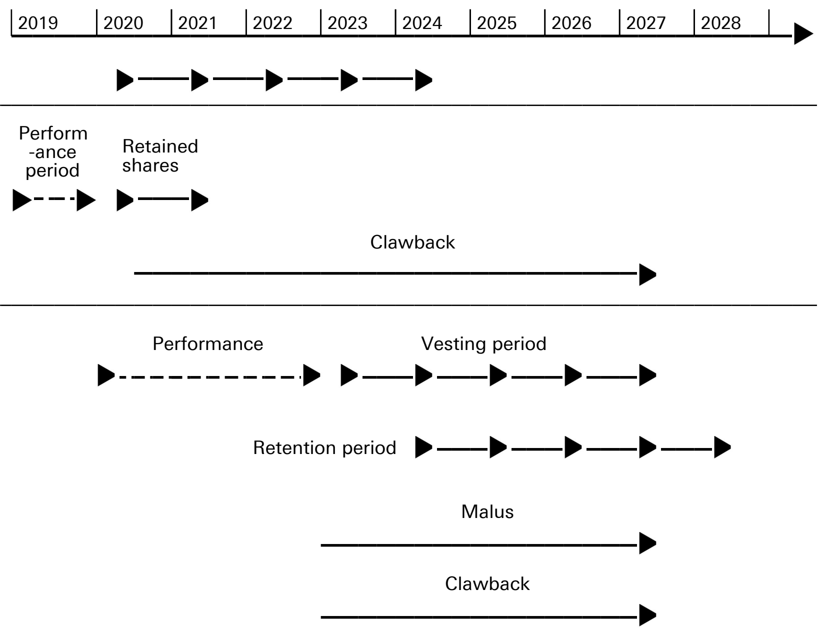
| Elements and objectives | Operation | Implementation in 2020 |
|---|---|---|
| **Benefits**<br>To provide benefits in accordance with local market practice. | • Benefits include the provision of medical insurance, accommodation, car, club membership, independent legal advice in relation to a matter arising out of the performance of employment duties for HSBC, tax return assistance or preparation and travel assistance (including any associated tax due, where applicable).<br>• Additional benefits may also be provided when an executive is relocated or spends a substantial proportion of his/her time in more than one jurisdiction for business needs. | • Benefits to be provided as per policy. Details will be disclosed in the *Annual Report and Accounts 2020* single figure of remuneration table. |
| **Shareholding guidelines**<br>To ensure appropriate alignment with the interest of our shareholders. | Executive Directors are expected to satisfy the following shareholding requirement as a percentage of base salary within five years from the date of their appointment:<br>• Group Chief Executive: 400%<br>• Group Chief Financial Officer: 300% | • No change to percentage of base salary. |
| **All employee share plans**<br>To promote share ownership by all employees. | Executive Directors are eligible to participate in all employee share plans, such as HSBC Sharesave, on the same basis as all other employees. | • Participation in any such plans will be disclosed in the *Annual Report and Accounts 2020*, as required. |

## Illustration of release profile

The following chart provides an illustrative release profile of remuneration for executive Directors.

Illustration of release profile

| | |
|---|---|
| **Fixed pay allowance** | • Released in five equal annual instalments starting from March 2020. |
| **Annual incentive** | • Paid 50% in cash and 50% in immediately vested shares subject to a retention period of one year.<br>• Subject to clawback provisions for seven years from grant, which may be extended to 10 years in the event of an ongoing internal/ regulatory investigation. |
| **Long-term incentive** | • Award granted taking into consideration performance over the prior year and also subject to a three-year forward-looking performance period.<br>• Subject to performance outcome, awards will vest in five equal annual instalments starting from the third anniversary of the grant date[1].<br>• On vesting, shares are subject to a retention period of one year.<br>• Unvested awards subject to malus provisions.<br>• Subject to clawback provisions for seven years from grant, which may be extended to 10 years in the event of an ongoing internal/ regulatory investigation. |




1 *The seven-year vesting period and the one-year post-vesting retention period applied to shares granted under the LTI aligns with the minimum five-year holding period expected by shareholders and under the UK Corporate Governance Code as the share awards will be released over a period of eight years with a weighted-average holding period of six years.*

The table below details how the Group Remuneration Committee addresses the principles set out in the UK Corporate Governance Code in respect of the Directors' remuneration policy.

| Provision | Approach |
|---|---|
| **Clarity**<br>Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. | • The Committee regularly engages and consults with key shareholders to take into account shareholder feedback and to ensure there is transparency on our policy and its implementation.<br>• Our employees were informed about the Directors' remuneration policy approved by our shareholders at our 2019 AGM. Details of our remuneration practices and our remuneration policy for Directors are published and available to all our employees. |
| **Simplicity**<br>Remuneration structures should avoid complexity and their rationale and operation should be easy to understand. | • Our Directors' remuneration policy has been designed to achieve simplicity while complying with the provisions set out in the UK Corporate Governance Code and the remuneration rules of the UK's Prudential Regulation Authority and Financial Conduct Authority, as well as meeting the expectations of our shareholders. The objective of each remuneration element is explained and the amount paid in respect of each element of pay is clearly set out. |
| **Risk**<br>Remuneration structures should identify and mitigate against reputational and other risks from excessive rewards, as well as behavioural risks that can arise from target-based incentive plans. | • In line with regulatory requirements, our remuneration practices promote sound and effective risk management while supporting our business objectives (see page 207).<br>• Risk and conduct considerations are taken into account in setting the variable pay pool, from which any executive Director variable pay is funded.<br>• Executive Directors' annual and LTI scorecards include a mix of financial and non-financial measures. Financial measures in the scorecards are subject to a CET1 underpin to ensure CET1 remains within risk tolerance levels while achieving financial targets. In addition, the overall scorecard outcome is subject to a risk and compliance underpin.<br>• The deferred portion of any awards granted to executive Directors is subject to a seven-year deferral period during which our malus policy can be applied. All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing). |
| **Predictability**<br>The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy. | • The charts set out on page 7 of our Directors' remuneration policy show how the total value of remuneration and its composition vary under different performance scenarios for executive Directors. The Directors' remuneration policy can be found at www.hsbc.com/our-approach/corporate-governance/remuneration. |
| **Proportionality**<br>The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear and outcomes should not reward poor performance. | • The annual incentive scorecard rewards achievement of our annual operating targets and the LTI scorecard rewards achievement of long-term financial and shareholder value creation targets.<br>• The Committee retains the discretion to reduce (to zero if appropriate) the annual incentive and LTI payout based on the outcome of the relevant scorecards, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Group during the performance period. |
| **Alignment with culture**<br>Incentive schemes should drive behaviours consistent with the Group's purpose, values and strategy. | • In order for any annual incentive award to be made, each executive Director must achieve a required behaviour rating, which is assessed by reference to the HSBC Values.<br>• Annual incentive and LTI scorecards contain non-financial measures linked to our wider social obligations. This includes measures related to reducing the environmental impact of our operations, improving customer satisfaction, diversity and employee engagement. |

## Remuneration policy – non-executive Directors

Non-executive Directors are not employees. They receive base fees for their service and further fees for additional Board duties, including but not limited to chairmanship, membership of a committee, or acting as the Senior Independent Director and/or Deputy Chairman.

Non-executive Directors also receive a travel allowance of £4,000 towards the additional time commitment required for travel.

Any other taxable or other expenses incurred in performing their role are reimbursed, as well as any related tax cost on such reimbursement.

All non-executive Directors are expected to satisfy a shareholding guideline of 15,000 shares within five years of their appointment.

There have been no changes to the non-executive Directors' fees from the remuneration policy approved at the AGM in 2019, except for the Senior Independent Director. Following Sir Jonathan Symond's decision to retire from the Board, David Nish has been appointed as Senior Independent Director. The Committee considered the fee for the role of Senior Independent Director in the context of the demands and expectations of the role, including responsibilities related to the ongoing strategic review. Given the increased time commitment for this role, the Remuneration Committee approved a fee of £200,000 per annum. This compares with the amount of £375,000, which was previously payable in respect of the combined role of Deputy Group Chairman and Senior Independent Director. The following table sets out the fees for 2020.

| Position | | 2020 fees £ |
|---|---|---|
| Non-executive Group Chairman[1] | | 1,500,000 |
| Non-executive Director (base fee) | | 127,000 |
| Senior Independent Director[2] | | 200,000 |
| Group Risk Committee | Chair | 150,000 |
| | Member | 40,000 |
| Group Audit Committee, Group Remuneration Committee and Financial System Vulnerabilities Committee | Chair | 75,000 |
| | Member | 40,000 |
| Nomination & Corporate Governance Committee | Chair | — |
| | Member | 33,000 |

1 *Group Chairman does not receive a base fee or any other fee in respect of chairing of any other committee.*
2 *For the period to 18 February 2020, a fee of £375,000 was paid in respect of the combined role of Deputy Group Chairman and Senior Independent Director.*

## Service contracts

### Executive Directors

The length of service and notice periods of executive Directors are set at the discretion of the Committee, taking into account market practice, governance considerations, and the skills and experience of the particular candidate at that time.

| | Contract date (rolling) | Notice period (Director and HSBC) |
|---|---|---|
| Noel Quinn | 5 August 2019 | 12 months |
| John Flint[1] | 21 February 2018 | 12 months |
| Ewen Stevenson | 1 December 2018 | 12 months |
| Marc Moses[2] | 27 November 2014 | 12 months |

1 *John Flint stepped down from the Board on 5 August 2019.*
2 *Marc Moses stepped down from the Board on 31 December 2019.*

Service agreements for each executive Director are available for inspection at HSBC Holdings' 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 Directors' biographies are set out on pages 158 to 163, and include those directorships provided for under the Capital Requirements Regulation II.

### 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 AGMs. Non-executive Directors do not have service contracts, but are bound by letters of appointment issued for and on behalf of HSBC Holdings, which are available for inspection at HSBC Holdings' registered office. There are no obligations in the non-executive Directors' letters of appointment that could give rise to remuneration payments or payments for loss of office.

Non-executive Directors' current terms of appointment will expire as follows:

| 2020 AGM | 2021 AGM | 2022 AGM |
|---|---|---|
| Kathleen Casey | Mark Tucker | Henri de Castries |
| Laura Cha | Heidi Miller | Irene Lee |
| David Nish | | José Antonio Meade Kuribreña |
| Jackson Tai | | Pauline van der Meer Mohr |

## Annual report on remuneration

This section sets out how our approved Directors' remuneration policy was implemented during 2019.

### Single figure of remuneration

(Audited)

The following table shows the single figure of total remuneration of each executive Director for 2019, together with comparative figures for 2018.

Single figure of remuneration

| | Noel Quinn[1] | | John Flint[2] | | Ewen Stevenson | | Marc Moses[3] | |
|---|---|---|---|---|---|---|---|---|
| **(£000)** | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Base salary | **503** | — | **730** | 1,028 | **719** | — | **719** | 700 |
| Fixed pay allowance | **695** | — | **1,005** | 1,459 | **950** | — | **950** | 950 |
| Cash in lieu of pension | **50** | — | **134** | 308 | **107** | — | **107** | 210 |
| Taxable benefits[4] | **41** | — | **91** | 40 | **16** | — | **40** | 13 |
| Non-taxable benefits[4] | **23** | — | **31** | 28 | **28** | — | **33** | 38 |
| **Total fixed** | **1,312** | — | **1,991** | 2,863 | **1,820** | — | **1,849** | 1,911 |
| Annual incentive[5] | **665** | — | **891** | 1,665 | **1,082** | — | **926** | 1,324 |
| AML DPA award[6] | — | — | — | — | — | — | — | 695 |
| LTI[7] | — | — | — | — | — | — | **1,709** | — |
| Replacement award[8] | — | — | — | — | **1,974** | — | — | — |
| Notional returns[9] | — | — | **40** | 54 | — | — | **17** | 33 |
| **Total variable** | **665** | — | **931** | 1,719 | **3,056** | — | **2,652** | 2,052 |
| **Total fixed and variable** | **1,977** | — | **2,922** | 4,582 | **4,876** | — | **4,501** | 3,963 |

1 *Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and the remuneration included in the single figure table above is in respect of services provided as an executive Director.*

2 *John Flint stepped down as an executive Director and Group Chief Executive on 5 August 2019. His remuneration details for 2019 are in respect of services provided as an executive Director. Details of John Flint's departure terms are provided on page 198.*

3 *Marc Moses stepped down as an executive Director and Group Chief Risk Officer on 31 December 2019. Details of Marc Moses' departure terms are provided on page 198.*

4 *Taxable benefits include the provision of medical insurance, car and tax return assistance (including any associated tax due, where applicable). Non-taxable benefits include the provision of life assurance and other insurance cover.*

5 *To meet regulatory deferral requirements for 2019, 60% of the annual incentive award for John Flint and Marc Moses will be deferred in awards linked to HSBC's shares and will vest in five equal instalments between the third and seventh anniversary of the grant date. On vesting, the shares will be subject to a one-year retention period. The deferred awards are subject to the executive Director maintaining good leaver status during the deferral period. Noel Quinn will have 60% of his annual incentive award deferred, and in line with regulatory requirements it will be split equally between cash and shares subject to the same vesting and retention conditions.*

6 *The 2012 annual incentive for Marc Moses had a 60% deferral. The vesting of this deferred award was subject to a service condition and satisfactory completion of the five-year deferred prosecution agreement ('AML DPA') with the US Department of Justice. The AML DPA condition was satisfied in March 2018 and the awards were released. The value of Marc Moses' award in the table above reflects his time as an executive Director between 1 January 2014 and the vesting date.*

7 *An LTI award was made in February 2017 (in respect of 2016) at a share price of £6.503 for which the performance period ended on 31 December 2019. The value has been computed based on a share price of £5.896, the average share price during the three-month period to 31 December 2019. This includes dividend equivalents of £237,030, equivalent to 40,202 shares at a share price of £5.896. See the following section for details of the assessment outcomes.*

8 *As set out in the 2018 Directors' remuneration report, in 2019 Ewen Stevenson was granted replacement awards to replace unvested awards, which were forfeited as a result of him joining HSBC. The awards, in general, match the performance, vesting and retention periods attached to the awards forfeited, and will be subject to any performance adjustments that would otherwise have been applied. The values included in the table relate to Ewen Stevenson's 2015 and 2016 LTI awards granted by The Royal Bank of Scotland Group plc ('RBS') for performance years 2014 and 2015, respectively, and replaced with HSBC shares when Ewen Stevenson joined HSBC. These awards are not subject to further performance conditions and commenced vesting in March 2019. The total value is an aggregate of £1,121,308 for the 2015 LTI and £852,652 for the 2016 LTI. The 2016 LTI award value has been determined by applying the performance assessment outcome of 27.5% as disclosed in RBS's* Annual Report and Accounts 2018 *(page 70) to the maximum number of shares subject to performance conditions.*

9 *'Notional returns' refers to the notional return on deferred cash for awards made in prior years. The deferred cash portion of the annual incentive granted in prior years includes a right to receive notional returns for the period between grant date and vesting date, which is determined by reference to the dividend yield on HSBC shares, calculated annually. A payment of notional return is made annually in the same proportion as the vesting of the deferred awards on each vesting date. The amount is disclosed on a paid basis in the year in which the payment is made. No deferred cash awards have been made to executive Directors for their services as an executive Director since the 2016 financial year.*

## Determining executive Directors' performance

(Audited)

Awards made to executive Directors reflected the Committee's assessment of each of their performance against scorecard objectives, and reflect the Group's strategic priorities and risk appetite. For the risk and compliance and personal objectives, this involved making a qualitative assessment of the extent of progress achieved, where applicable. This was then applied to the weighting of each objective to determine the outcome percentage. As part of this assessment, the Committee also consulted the Group Risk Committee and Financial System Vulnerabilities Committee, and took into consideration their feedback in determining the scorecard outcomes for the executive Directors against risk and compliance measures.

In order for any annual incentive award to be made, each executive Director must achieve a required behaviour rating, which is assessed by reference to the HSBC Values. For 2019, all executive Directors achieved the required behaviour rating.

The maximum 2019 annual incentive opportunity for Noel Quinn and John Flint was set at 198% of salary and for Ewen Stevenson and Marc Moses at 193% of salary. Noel Quinn's and John Flint's 2019 scorecard outcomes were assessed by taking into consideration the Group's performance against the 2019 scorecard measures for the Group Chief Executive, as set out in the *Annual Report and Accounts 2018*. The outcomes for these measures have been pro-rated for the time spent by Noel Quinn and John Flint in the Group Chief Executive role during 2019 to determine their annual incentive awards. Based on input received from the Group Risk Committee, there was a difference in the Group's performance against the risk and compliance measure during Noel Quinn's and John Flint's tenures, and this has been reflected in their overall scorecard outcomes and annual incentive awards as noted in the following tables.

### Annual assessment

| | Group Chief Executive | | | Group Chief Financial Officer | | | Group Chief Risk Officer | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighting (%) | Assessment (%) | Outcome (%) | Weighting (%) | Assessment (%) | Outcome (%) | Weighting (%) | Assessment (%) | Outcome (%) |
| Profit before tax[1] | 10.0 | 92.5 | 9.3 | 10.0 | 92.5 | 9.3 | 10.0 | 92.5 | 9.3 |
| Positive jaws | 5.0 | 100.0 | 5.0 | 10.0 | 100.0 | 10.0 | — | — | — |
| Revenue growth | 10.0 | 79.4 | 7.9 | — | — | — | — | — | — |
| RoTE | 5.0 | 48.7 | 2.4 | 8.3 | 48.7 | 4.0 | 3.3 | 48.7 | 1.6 |
| Capital metrics | 5.0 | 62.5 | 3.1 | 16.7 | 62.5 | 10.4 | 6.7 | 62.5 | 4.2 |
| Strategic priorities | 30.0 | 39.3 | 11.8 | 20.0 | 68.8 | 13.8 | 15.0 | 41.7 | 6.3 |
| Risk and compliance | 25.0 | 77.5 | 19.4 | 25.0 | 90.0 | 22.5 | 45.0 | 63.9 | 28.7 |
| Personal objectives | 10.0 | 75.0 | 7.5 | 10.0 | 75.0 | 7.5 | 20.0 | 81.3 | 16.2 |
| **Total** | 100.0 | | 66.4 | 100.0 | | 77.5 | 100.0 | | 66.3 |
| Maximum annual incentive opportunity (£000) | | | £2,451 | | | £1,396 | | | £1,396 |
| Annual incentive (£000) | | | | | | £1,082 | | | £926 |
| – Noel Quinn[2] | | | £665 | | | | | | |
| – John Flint[3] | | | £891 | | | | | | |

### Financial performance

### Annual assessment

| | Minimum (25% payout) | Maximum (100% payout) | Performance | Assessment (%) |
|---|---|---|---|---|
| **Measure** | | | | |
| Profit before tax ($bn)[1] | $21.3 | $24.3 | $24.0 | 92.5 |
| Positive jaws (%) | Positive | 2.5 | 3.0 | 100.0 |
| Deliver mid-single digit revenue growth (%) | 3.0 | 7.0 | 5.9 | 79.4 |
| Reported RoTE (%) | 7.8 | 9.7 | 8.4 | 48.7 |
| Capital metrics[4] | Various (see following notes and performance assessment) | | | |
| Strategic priorities[5] | | | | |

1 *Profit before tax, as defined for Group annual bonus pool calculation. This definition excludes business disposal gains and losses, debt valuation and goodwill adjustments and variable pay expense. However, it takes into account fines, penalties and costs of customer redress, including provisions, which are excluded from the adjusted profit before tax. Other significant items are included or excluded in line with the principles underpinning the definition. The adjusted profit before tax as per adjusted results is found on page 2.*

2 *Noel Quinn performed the Group Chief Executive role from 5 August 2019 to 31 December 2019. The performance assessment for Noel Quinn against the risk and compliance measure was 77.5%, resulting in an outcome of 19.4% against this measure. This results in an overall scorecard outcome of 66.4% for him. His annual incentive award has been determined based on 40.8% of the performance outcome to reflect the time spent by him in the Group Chief Executive role during 2019.*

3 *John Flint performed the Group Chief Executive role from 1 January 2019 to 4 August 2019. The performance assessment for John Flint against the risk and compliance measure was 57.5%, resulting in an outcome of 14.4% against this measure. This results in an overall scorecard outcome of 61.4% for him. His annual incentive award has been determined based on 59.2% of this performance outcome to reflect the time spent by him in the Group Chief Executive role during 2019.*

4 *Maintaining and improving Group capital measures, primarily equity measures, in line with our intent to maintain a CET1 ratio of more than 14%.*

5 *Strategic priorities measures include: accelerate revenue growth from our Asian franchise, grow international revenue, turn around the US business, improve customer service, strengthen external relationships and employee engagement.*

## Non-financial performance

### Group Chief Executive (Noel Quinn and John Flint)

| Objectives | Performance |
|---|---|
| **Strategic priorities**<br>• Accelerate revenue growth from our Asia franchise<br>• Deliver revenue growth from our international network<br>• Turn around the US business<br>• Improve customer satisfaction | • The full-year revenue growth of 7.1% in Asia, 11.6% in Asia wealth management, 6.6% in Hong Kong and 5.4% in the ASEAN region were all within their respective target ranges but below the maximum targets set for these measures. Growth of 9.8% in the Pearl River Delta was below the target range. This measure carried a 15% weighting, with a performance assessment of 54%, resulting in an overall scorecard outcome of 8.05%.<br>• Revenue growth from international clients of 2.0% was below the full-year target range of 3.5 to 7.5%. This measure carried a 5% weighting and has not resulted in any payout.<br>• The lower interest rate environment and challenging conditions, particularly in capital markets, impacted the US RoTE target, with the full-year RoTE of 1.8%, below the 2% to 4% target range for 2019. This measure carried a 5% weighting and has not resulted in any payout.<br>• Customer service in RBWM in six out of eight scale markets was ranked in the top three, or improved from 2018. In CMB, four out of eight scale markets were within the top-three rankings. The GB&M customer engagement score was ahead of the competition, despite having decreased by 2 points since 2018. In GPB, the overall satisfaction score increased from a mean score of 7.6 out of 10 in 2018 to 8.0 in 2019. Initiatives for continual improvement of customer satisfaction remain a high priority. This measure carried a 5% weighting, with a performance assessment of 75% and a scorecard outcome of 3.75%. |
| **Risk and compliance**<br>• Achieve and deliver sustainable global conduct outcomes and effective financial crime risk management<br>• Effectively manage material operational risks | The assessment has been based on the management of financial crime risk, delivery of conduct outcomes and management of the Group's operational risk profile.<br>There was a firm commitment to the compliance agenda and a strong tone from the top that contributed towards:<br>• improvement in the management of financial crime risks through increased effectiveness of the financial crime risk management committees, proactive management of data quality, a more robust financial crime risk control environment and conduct outcomes across the Group;<br>• the encouragement of a 'speak up' culture; and<br>• the acceleration of the full adoption of the operational risk management framework across the first and second lines of defence to manage non-financial risk more effectively.<br>There was a slower pace of progress on operational risk matters in the first half of 2019 and this was reflected in the lower outcome assessed for John Flint. |
| **Personal objectives**<br>• Strengthen the Group's external relationships<br>• Improve employee engagement<br>• Improve diversity in senior management | • Interactions with investors and regulators received positive feedback. They were described as professional, competent and embodying trust, respect and transparency.<br>• Employer advocacy, as a measure of employee engagement, remained stable at 66%, although below the target of 69%. Efforts to improve engagement continue.<br>• Female representation in senior leadership roles at 29.4% exceeded the target of 29%, and is on track towards the aspirational target of 30% female leaders in senior positions by 2020. |

### Group Chief Financial Officer (Ewen Stevenson)

| Objectives | Performance |
|---|---|
| **Strategic priorities**<br>• Turn around the US business<br>• Improve Finance function support to global businesses through investment in digital capabilities<br>• Simplify the organisation and deliver cost savings | • The lower interest rate environment and challenging conditions, particularly in capital markets, impacted the US RoTE target, with the full-year RoTE of 1.8%, below the 2% to 4% 2019 target range. This measure carried a 5% weighting and has not resulted in any payout.<br>• The deployment of Cloud technologies for regulatory liquidity reporting was executed to plan, with migration to Cloud infrastructure by the year-end. Full migration to Cloud technology for the Finance function has focused on three key areas: Finance operating model, people skills and regulatory engagement. This measure carried a 5% weighting and 75% performance outcome.<br>• Simplification of the Finance function's structure led to more effective management of the function. Finance launched a 'Stop and Simplify' campaign to implement initiatives, leading to greater efficiencies. Other initiatives continue to target enhanced employee engagement, skills development and advocacy. This measure carried a 10% weighting and was assessed as fully met. |
| **Risk and compliance**<br>• Achieve and deliver sustainable global conduct outcomes and effective financial crime risk management<br>• Effectively manage material operational risks<br>• Deliver commitments to regulators, including the successful delivery of the Bank of England and other stress tests | • The assessment has been based on the management of financial crime risk, delivery of conduct outcomes, management of the Group's operational risk profile, delivery of stress tests and other commitments to the regulators.<br>• Processes for monitoring and reporting conduct outcomes were enhanced and overseen by senior governance structures. No significant conduct issues, breaches or reportable events were identified. Internal review of conduct and controls, including governance, were rated as effective.<br>• Progress is underway to embed the risk management framework to manage non-financial risks more effectively. There is robust stewardship of financial reporting risk across the Group with a strong tone from the top supported by senior governance forums.<br>• Regulatory stress test updates were delivered on time and to the required standard, with regulator queries addressed in a timely manner. |
| **Personal objectives**<br>• Strengthen the Group's external relationships<br>• Improve employee engagement<br>• Improve diversity in senior management | • The investor relations strategy was fulfilled, covering all key regions and strengthening the Group's relationships with key stakeholders. Effective interactions helped to gain considerable traction with key regulators in core markets.<br>• Employer advocacy, as a measure of employee engagement, remained stable at 66%, although below the target of 69%. Efforts to improve engagement continue.<br>• Female representation in senior leadership roles in the Global Finance function at 29.6% exceeded the target of 29.2%, primarily due to the recruitment of women in key senior leadership roles. Sponsorship of the Global Disability Confidence Programme, female development programmes, parental transition coaching, and PRIDE (LBGTQ) sensitisation training all supported diversity and inclusion in the function. |

## Group Chief Risk Officer (Marc Moses)

| Objectives | Performance |
|---|---|
| **Strategic priorities**<br>• Turn around the US business<br>• Improve customer satisfaction<br>• Simplify the organisation and deliver cost savings | • The lower interest rate environment and challenging conditions, particularly in capital markets has impacted the US RoTE target, with the full-year RoTE of 1.8%, below the 2% to 4% 2019 target range. This measure carried a 5% weighting and has not resulted in any payout.<br>• The focus on customer satisfaction continued across markets, with improvements identified for action.<br>• Targeted cost savings in the function were achieved through consolidation of work, simplification of structures and centres of excellence. |
| **Risk and compliance**<br>• Achieve and deliver sustainable global conduct outcomes and effective financial crime risk management<br>• Effectively manage material operational risks<br>• Deliver commitments to regulators, including the successful delivery of the Bank of England and other stress tests<br>• Successfully enhance model risk management | • The assessment has been based on the management of financial crime risk, delivery of conduct outcomes, management of the Group's operational risk profile, delivery of stress tests and other commitments to the regulators and model risk management.<br>• The 2019 conduct agenda continued to drive forward by maintaining a strong tone from the top, fostering a 'speak up' culture and targeting ongoing monitoring.<br>• The Group's top non-financial risks remained broadly unchanged in 2019, with a focus on model risk and resilience risk stewardship. There was an increased focus to fully adopt the operational risk management framework and to manage non-financial risks more effectively.<br>• Progress is underway to embed the operational risk management framework to manage non-financial risks more effectively, with robust stewardship of financial reporting risk across the Group and a strong tone from the top.<br>• The 2019 annual cyclical scenario was successfully delivered to the PRA and the CCAR submission was delivered to the US Federal Reserve Board.<br>• The enhancement of model risk management is underway through staff appointments, training and the delivery of the model ownership framework. |
| **Personal objectives**<br>• Support innovation<br>• Strengthen the Group's external relationships<br>• Improve employee engagement<br>• Improve diversity in senior management | • The education of Global Risk employees in innovation continues, with increasing deployment of Cloud technologies and Agile methodologies.<br>• There were successful and regular interactions with stakeholders. Regulators repeatedly highlighted the excellence of financial risk management. The improvement of non-financial risk management remains a continued focus.<br>• Employer advocacy, as a measure of employee engagement, remained stable at 66%, although below the target of 69%. Initiatives to improve engagement continue.<br>• Female representation in senior leadership roles at 25.6% exceeded the target of 24%. |

## 2016 long-term incentive performance

The 2016 LTI award was granted to Marc Moses, Stuart Gulliver (former Group Chief Executive) and Iain Mackay (former Group Finance Director). The awards that will vest for Stuart Gulliver and Iain Mackay will be determined after applying the performance outcome below to their 2016 LTI award and pro-rating for time in employment during the performance period of 1 January 2017 to 31 December 2019 (as disclosed in the *Annual Report and Accounts 2018*).

Assessment of the LTI award in respect of 2016 (granted in 2017)

| Measures (with weighting) | Minimum (25% payout) | Target (50% payout) | Maximum (100% payout) | Actual | Assessment | Outcome |
|---|---|---|---|---|---|---|
| **Average return on equity[1] (20.00%)** | 7.00% | 8.50% | 10.00% | 8.33% | 47.17% | 9.43% |
| **Cost efficiency (adjusted jaws) (20.00%)** | Positive | 1.50% | 3.00% | 3.10% | 100.00% | 20.00% |
| **Relative total shareholder return[2] (20.00%)** | At median of the peer group. | Straight-line vesting between minimum and maximum. | At upper quartile of the peer group. | Rank 5th | 68.00% | 13.60% |
| **Global Standards including risk and compliance** | | | | | | |
| • Status of AML DPA (10.00%) | Not applicable | Not applicable | Met all commitments to achieve closure of the AML DPA and protect HSBC from further regulatory censure for financial crime compliance failings. | Met | 100.00% | 10.00% |
| • Achieve and sustain compliance with Global Financial Crime Compliance policies and procedures[3] (15.00%) | Performance assessed by the Committee based on a number of qualitative and quantitative inputs such as feedback from the Financial System Vulnerabilities Committee, Group Financial Crime Risk assessment against Financial Crime Compliance objectives, outcome of assurance and audit reviews, and achievement of the long-term Group objectives and priorities during the performance period. | | | 75.00% | 75.00% | 11.25% |
| **Strategy** | | | | | | |
| • International client revenues (Share of revenue supported by international network) (3.75%) | 50.00% | 51.00% | 52.00% | 53.00% | 100.00% | 3.75% |
| • Revenue synergies (Share of revenues supported by universal banking model) (3.75%) | 22.00% | 23.00% | 24.00% | 31.00% | 100.00% | 3.75% |
| • Employee[4] (Results of employee survey) (3.75%) | 65.00% | 67.00% | 70.00% | 58.00% | 0.00% | 0.00% |
| • Customer (Based on customer recommendation in home country markets) (3.75%) | Rank within top three in at least two of the four RBWM and CMB customer segments in home country markets. | Rank within top three in three of the four RBWM and CMB customer segments in home country markets. | Rank within top three in all four RBWM and CMB customer segments in home country markets. | Ranked within top three in two customer segments | 25.00% | 0.94% |
| **Total[5]** | | | | | | **72.72%** |

1 *Significant items are excluded from the profit attributable to ordinary shareholders of the company for the purpose of computing adjusted return on equity.*
2 *The peer group for the 2016 award is: Australia and New Zealand Banking Group, Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse Group, DBS Group Holdings, Deutsche Bank, J.P. Morgan Chase & Co., Lloyds Banking Group, Standard Chartered and UBS Group.*
3 *The performance outcome was reviewed and approved by the Group Risk Committee and the Financial System Vulnerabilities Committee. The performance assessment was based on qualitative and quantitative factors, which evidenced an improvement in financial crime risk-related audit outcomes, an overall reduction of residual risk for anti-money laundering and sanctions as assessed by our enterprise-wide risk assessment, improvement of financial crime risk control effectiveness during the performance period and strong financial crime governance.*
4 *Assessed based on results of the latest employee Snapshot survey question: 'I am seeing the positive impact of our strategy'.*
5 *Assessment determined on a straight-line basis for performance between the minimum, target and maximum levels of performance set in this table.*

## Long-term incentive awards

(Audited)

For the 2019 performance year, the Committee determined to grant Ewen Stevenson an LTI award of £2,094,400, after taking into consideration performance achieved for the financial year ended 31 December 2019. The award will be subject to a three-year performance period starting 1 January 2020. As the award is not entitled to dividend equivalents per regulatory requirements, the number of shares to be awarded will be adjusted to reflect the expected dividend yield of the shares over the vesting period. The Committee has not granted an LTI award to Noel Quinn given he has been in an interim capacity in the Chief Executive role.

Taking into account feedback we received from proxy voting agencies on the 2018 LTI scorecard, we have introduced a relative performance measure in our LTI scorecard. We believe a relative measure along with an absolute financial metric will provide a more complete view of overall performance.

Based on this feedback, the 2019 LTI scorecard gives equal weighting to RoTE, relative TSR and customer measures. The RoTE measure will ensure the payout of LTI awards is aligned with value creation. The relative TSR measure will ensure LTI payout realised by our executive Directors is aligned with shareholder experience.

We are putting customer feedback at the centre of decision making and are in the process of implementing a new customer centricity framework, which is designed to inspire us to do what is right for customers. It will help us to share feedback directly with our people and allow them to take immediate action to improve customer experiences. The customer measure in the 2019 LTI scorecard will reward our executive Directors for improvement in customer experience and satisfaction in our key home and scale markets.

RoTE targets for the LTI award have been set in line with targets included in our business update. For the relative TSR measure, in line with our shareholders' expectation, the minimum performance has been set at the median of the peer group. For maximum payout, our TSR performance over the three-year performance period will need to be in the upper quartile of our peer group.

For the customer measure, performance will be assessed based on improvements made in our customer satisfaction scores in home and scale markets and the progress we make during the three-year performance period in meeting the customer-linked business objectives.

The LTI is also subject to a risk and compliance underpin, which gives the Committee the discretion to adjust down the overall scorecard outcome to ensure that the Group operates within risk and/or compliance tolerance when achieving its financial targets. For this purpose, the Committee will receive information including any risk thresholds outside of tolerance for a significant period of time and any risk management failures that have resulted in significant customer detriment, reputational damage and/or regulatory censure.

The measures and weighting that will be used to assess performance and payout are described in the following table.

To the extent performance conditions are satisfied at the end of the three-year performance period, the awards will vest in five equal annual instalments commencing from around the third anniversary of the grant date. On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and security payable) will be held for a retention period of up to one year, or such period as required by regulators.

## Performance conditions for LTI awards in respect of 2019

| Measures | Minimum (25% payout) | Target (50% payout) | Maximum (100% payout) | Weighting % |
|---|---|---|---|---|
| RoTE (with CET1 underpin)[1, 2] | 10.0% | 11.0% | 12.0% | 33.3 |
| Relative TSR[3] | At median of the peer group | Straight-line vesting between minimum and maximum | At upper quartile of peer group | 33.3 |
| Customers | Performance will be assessed by the Committee taking into consideration:<br>• customer satisfaction scores at the start and end of the three-year performance period for our global businesses in home and scale markets as per data provided by an independent third party on HSBC's performance across our products and services; and<br>• progress against customer objectives linked to our strategy over the next three years. | | | 33.3 |

1 *To be assessed based on RoTE in the 2022 financial year. The measure will also be subject to a CET1 underpin. If the CET1 ratio at the end of performance period is below the CET1 risk tolerance level set in the risk appetite statement, then the assessment for this measure will be reduced to nil.*
2 *Awards will vest on a straight-line basis for performance between the minimum, target and maximum levels of performance set in this table.*
3 *The peer group for the 2019 award is: Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse Group, DBS Group Holdings, Deutsche Bank, J.P. Morgan Chase & Co., Lloyds Banking Group, Morgan Stanley, Standard Chartered and UBS Group.*

## Scheme interests awarded during 2019

(Audited)

The table below sets out the scheme interests awarded to Directors in 2019, as disclosed in the 2018 Directors' remuneration report. No non-executive Directors received scheme interests during the financial year.

### Scheme awards in 2019

(Audited)

| | Type of interest awarded | Basis on which award made | Date of award | Face value awarded[1] £000 | Percentage receivable for minimum performance | Number of shares awarded | End of performance period |
|---|---|---|---|---|---|---|---|
| Marc Moses | LTI deferred shares[2] | % of salary[3] | **25 February 2019** | **2,859** | **25** | **458,567** | **31 December 2021** |
| John Flint (stepped down on 5 August 2019) | LTI deferred shares[2] | % of salary[3] | **25 February 2019** | **4,919** | **25** | **788,933** | **31 December 2021** |
| Ewen Stevenson (appointed 1 January 2019) | Deferred shares | Replacement award (2018 performance period)[4] | **28 May 2019** | **1,509** | **—** | **241,988** | **31 December 2018** |
| | Deferred shares | Replacement award[5] | **28 May 2019** | **561** | **—** | **84,397** | **31 December 2017** |
| | Deferred shares | Replacement award[6] | **28 May 2019** | **851** | **—** | **128,045** | **31 December 2018** |
| | Deferred shares | Replacement award[7] | **28 May 2019** | **2,083** | **—** | **313,608** | **31 December 2019** |
| | Deferred shares | Replacement award[8] | **28 May 2019** | **1,181** | **—** | **177,883** | **31 December 2020** |
| Noel Quinn (appointed 5 August 2019) | Deferred shares[9] | Annual incentive | **25 February 2019** | **877** | **—** | **140,585** | **31 December 2018** |
| | Deferred cash[9] | Annual incentive | **25 February 2019** | **684** | **—** | N/A | **31 December 2018** |

1 *The face value of the award has been computed using HSBC's closing share price of £6.235 taken on 24 February 2019 for Marc Moses, John Flint, Noel Quinn and Ewen Stevenson's 2018 replacement award. Ewen Stevenson's other replacement awards were calculated using a closing share price of £6.643 taken on 30 November 2018.*

2 *LTI awards are subject to a three-year forward-looking performance period and vest in five equal annual instalments, subject to performance achieved. On vesting, awards will be subject to a one-year retention period. Awards are subject to malus during the vesting period and clawback for a maximum period of 10 years from the date of the award.*

3 *In line with regulatory requirements, scheme interests awarded during 2019 were not eligible for dividend equivalents. In accordance with the remuneration policy approved by shareholders at the 2016 AGM, the LTI award was determined at 320% of salary for John Flint and 319% of salary for Marc Moses and the number of shares to be granted was determined by taking into account a share price discounted based on HSBC's expected dividend yield of 5% per annum for the vesting period (i.e. £4.867).*

4 *Deferred award made in lieu of a variable pay award Ewen Stevenson would have otherwise received from The Royal Bank of Scotland Group plc ('RBS') for the 2018 performance year. The award was determined based on the pre-grant assessment disclosed by RBS for the performance year 2018 long-term incentive awards. The deferred shares will vest in five equal annual instalments commencing from March 2022 and will be subject to a one-year retention period post vest. Awards will be subject to our malus and clawback policy and any future vesting adjustment that may be applied and disclosed by RBS in their Directors' remuneration report (or that we have been made aware of by RBS).*

5 *Deferred award granted in lieu of awards granted by RBS in March 2015 and which were not subject to any further performance conditions at the time of forfeiture by RBS. The deferred shares will vest in March 2020 and will be subject to a six-month retention period.*

6 *Deferred awards granted in lieu of awards granted by RBS in March 2016 and adjusted for the performance outcome as disclosed in RBS's* Annual Report and Accounts 2018*. The deferred shares will vest in two equal annual instalments in March 2020 and March 2021, and on vesting, the shares will be subject to a six-month retention period.*

7 *Deferred award granted in lieu of awards granted by RBS in March 2017. These awards will be subject to performance adjustment as applied and disclosed in RBS's* Annual Report and Accounts 2019*. The deferred shares will vest in annual instalments between March 2021 and March 2024. On vesting, the shares will be subject to a six-month retention period.*

8 *Deferred award granted in lieu of awards granted by RBS in March 2018. These awards will be subject to any 'pre-vest performance test' assessed and disclosed by RBS in its* Annual Report and Accounts 2020*. The deferred shares will vest in equal annual instalments between March 2021 and March 2025. On vesting the shares will be subject to a one-year retention period.*

9 *Noel Quinn was not an executive Director at the date of these awards. These awards were part of his discretionary annual incentive award for performance achieved during the period to 31 December 2018. The awards will vest in five equal annual instalments between the third and seventh anniversary of the award date. On vesting, the deferred shares will be subject to a one-year retention period. As the deferred share awards are not eligible for dividend equivalents, the number of shares to be granted was determined by taking into account a share price discounted based on HSBC's expected dividend yield of 5% per annum for the vesting period (i.e. £4.867).*

The above table does not include details of shares issued as part of the fixed pay allowance and shares issued as part of the 2019 annual incentive award that vested on grant and were not subject to any further service or performance conditions. Details of the performance measures and targets for the LTI award in respect of 2018 are set out on the following page.

Performance conditions for LTI awards in respect of 2018 (granted in 2019)

| Measures | Minimum (25% payout) | Target (50% payout) | Maximum (100% payout) | Weighting % |
|---|---|---|---|---|
| **Average RoTE (with CET1 underpin)**[1] | 10.0% | 11.0% | 12.0% | 75.0 |
| **Employer advocacy**[2] | 65.0% | 70.0% | 75.0% | 12.5 |
| **Environmental, social and governance rank**[3] | Score to achieve an 'average performer' rating | Mid-point score between average and outperformer threshold scores | Score required to achieve an 'outperformer' rating | 12.5 |
| **Total**[4] | | | | **100.0** |

1 *If the CET1 ratio at the end of performance period is below the CET1 risk tolerance level set in the risk appetite statement, then the assessment for this measure will be reduced to nil.*

2 *To be assessed based on results of the latest employee Snapshot survey question: 'I would recommend this company as a great place to work'.*

3 *To be assessed based on results of the latest rating issued by Sustainalytics. In the event that Sustainalytics changes its approach to provide the ratings during the performance period, this may impact the assessment of the performance condition. To ensure that the performance targets/ assessment approach achieves its original purpose (i.e. are no less or more difficult than when the original targets were set) the Committee retains the discretion to review and where appropriate modify the targets once further details on any updated Sustainalytics ratings approach is published.*

4 *Awards will vest on a straight-line basis for performance between the minimum, target and maximum levels of performance set in this table.*

## Total pension entitlements

(Audited)

No employees who served as executive Directors during the year have a right to amounts under any HSBC final salary pension scheme for their services as executive Directors or are entitled to additional benefits in the event of early retirement. There is no retirement age set for Directors, but the normal retirement age for employees is 65.

## Payments to past Directors

(Audited)

Details of payments John Flint and Marc Moses received and/or will receive after they stepped down as executive Directors are set out in the following section.

No other payments were made to, or in respect of, former Directors in the year in excess of the minimum threshold of £50,000 set for this purpose.

## Payments for loss of office

### Departure terms for John Flint

(Audited)

John Flint stepped down as an executive Director and Group Chief Executive on 5 August 2019. His 12-month notice period expires on 4 August 2020.

In accordance with the approved Directors' remuneration policy and contractual terms agreed with him, he is being paid his fixed pay during his notice period. For the period between 5 August 2019 and 31 December 2019, he received a salary of £503,333, a fixed pay allowance ('FPA') of £694,840, cash in lieu of pension allowance of £50,333, and benefits totalling £42,190. The value of benefits includes medical and insurance related benefits of £25,940 and tax return and legal assistance of £16,250. As per the shareholder approved policy, John Flint will also receive cash in lieu of unused holiday totalling £306,400 on expiry of his notice period.

In accordance with the contractual terms agreed and our approved Directors' remuneration policy, John Flint was granted good leaver status in respect of outstanding unvested share awards. Good leaver status was determined taking into consideration his 30 years of service with HSBC and is conditional upon satisfaction of non-compete provisions under which he cannot undertake a role with a defined list of competitor financial services firms for two years after his employment ceases with HSBC. As a good leaver, John Flint has been made eligible to receive:

- an annual incentive award for 2019, pro-rated for the time spent in the Group Chief Executive role, as set out on page 192);
- his unvested awards that are due to vest after his employment with the Group ceases, on the scheduled vesting dates, subject to the relevant terms (including post-vest retention periods, malus and, where applicable, clawback) and the achievement of any required performance condition. For the purpose of his 2018 LTI award, performance will be measured at the end of the original performance period (31 December 2021), with the maximum number of shares available pro-rated for his time in employment with the Group during the performance period (which is 416,381 shares after pro-ration through to the end of his notice period); and
- certain post-departure benefits for a period of up to seven years after his employment ceases.

It is not expected that John Flint will receive an annual incentive award in respect of 2020, and he will not receive an LTI award for 2019 or 2020, nor any compensation or payment for the termination of his service contract or his ceasing to be a Director of any Group company.

### Departure terms for Marc Moses

(Audited)

Marc Moses stepped down as executive Director and Group Chief Risk Officer on 31 December 2019 and will continue to provide support to the Group Chief Executive during his 12-month notice period until he formally retires on 9 December 2020.

During his notice period, he will continue to receive his base salary, FPA, cash in lieu of pension allowance and other benefits as per our approved Directors' remuneration policy. He will also be eligible to receive an annual incentive award for 2020 based on his contribution.

In accordance with the approved Directors' remuneration policy and taking into consideration his 14 years of service with HSBC, Marc Moses will be considered as a good leaver on his retirement from HSBC on 9 December 2020. The good leaver status will be conditional upon satisfaction of non-compete provisions under which he cannot undertake a role with a defined list of competitor financial services firms for two years after his employment ceases with HSBC. As a good leaver, he has been made eligible to receive:

- an annual incentive award for 2019 (details are provided on page 192);
- his unvested awards that are due to vest after he ceases employment, on the scheduled vesting dates, subject to the relevant terms (including post-vest retention periods, malus and, where applicable, clawback) and the achievement of any required performance condition. For this purpose, his 2017 and 2018 LTI awards will be pro-rated for the period he was employed by the Group during the performance period with the maximum number of shares being 384,405 and 292,973, respectively; and
- certain post-departure benefits for a period of up to seven years after he ceases employment.

Marc Moses will not receive an LTI award for 2019 or 2020, nor any compensation or payment for the termination of his service contract or his ceasing to be a Director of any Group company.

## External appointments

During 2019, executive Directors did not receive any fees from external appointments.

## Executive Directors' interests in shares

(Audited)

The shareholdings of all persons who were executive Directors in 2019, including the shareholdings of their connected persons, at 31 December 2019 (or the date they stepped down from the Board, if earlier) are set out below. The following table shows the comparison of shareholdings with the company shareholding guidelines. There have been no changes in the shareholdings of the executive Directors from 31 December 2019 to the date of this report.

Individuals are given five years from their appointment date to build up the recommended levels of shareholding. Unvested share-based incentives are not normally taken into consideration in assessing whether the shareholding requirement has been met.

The Committee reviews compliance with the shareholding requirement and has full discretion in determining if any unvested shares should be taken into consideration for assessing compliance with this requirement, taking into account shareholder expectations and guidelines. The Committee also has full discretion in determining any penalties for non-compliance.

With regard to the post-employment shareholding requirement, we believe that our remuneration structure achieves the objective of ensuring there is ongoing alignment of executive Directors' interests with shareholder experience post-cessation of their employment due to the following features of the policy:

- Shares delivered to executive Directors as part of the FPA have a five-year retention period, which continues to apply following a departure of an executive Director.
- Shares delivered as part of an annual incentive award are subject to a one-year retention period, which continues to apply following a departure of an executive Director.
- When an executive Director ceases employment as a good leaver under our policy, any LTI awards granted will continue to be released over a period of up to eight years, subject to the outcome of performance conditions.

An executive Director who ceases employment as a good leaver after a tenure of five years will have share interests not subject to further performance conditions equivalent in value to more than 400% of salary assuming they receive a target payout of 50% for LTI awards.

HSBC operates an anti-hedging policy under which individuals are not permitted to enter into any personal hedging strategies in relation to HSBC shares subject to a vesting and/or retention period.



### Shares

(Audited)

| | | At 31 Dec 2019, or date stepped down from the Board, if earlier | | | | |
|---|---|---|---|---|---|---|
| | | | | Scheme interests | | |
| | | | | | Shares awarded subject to deferral[1] | |
| | Shareholding guidelines (% of salary) | Shareholding at 31 Dec 2019, or date stepped down from the Board, if earlier[2] (% of salary) | Share interests (number of shares) | Share options[3] | without performance conditions[4] | with performance conditions[5] |
| **Executive Directors** | | | | | | |
| Noel Quinn (appointed 5 August 2019) | 400% | **210%** | **441,925** | **–** | **390,806** | **–** |
| John Flint (stepped down on 5 August 2019) | 400% | **504%** | **1,060,599** | **5,505** | **372,335** | **788,933** |
| Ewen Stevenson (appointed 1 January 2019) | 300% | **191%** | **233,972** | **–** | **945,921** | **–** |
| Marc Moses | 300% | **1,450%** | **1,777,688** | **–** | **569,173** | **1,252,464** |
| **Group Managing Directors[6]** | 250% | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |

1 *The gross number of shares is disclosed. A portion of these shares will be sold at vesting to cover any income tax and social security that falls due at the time of vesting.*
2 *The value of the shareholding is calculated using an average of the daily closing share prices in the three months to 31 December 2019 (£5.896).*
3 *All share options are unexercised.*
4 *Includes Group Performance Share Plan ('GPSP') awards, which were made following an assessment of performance over the relevant period ending on 31 December before the grant date, but are subject to a five-year vesting period.*
5 *LTI awards granted in February 2017 are subject to the performance conditions as set out in the 'Determining executive Directors' performance' section on page 192. LTI awards granted in February 2018 are subject to the performance conditions as disclosed in the* Annual Report and Accounts 2017. *LTI awards granted in February 2019 are subject to the performance conditions as set out on page 197.*
6 *All Group Managing Directors are expected to meet their shareholding guidelines within five years of the date of their appointment. The shareholding guidelines for Group Managing Directors have been updated from 250,000 shares to 250% of reference salary from 1 January 2019 to align with the approach used for executive Directors.*

### Share options

(Audited)

| | Date of award | Exercise price | Exercisable | | At 1 Jan 2019 | Granted in year | Exercised in year[1] | At 5 August 2019 (date stepped down) |
|---|---|---|---|---|---|---|---|---|
| | | £ | from | until | | | | |
| John Flint | 21 Sep 18 | 5.4490 | 1 Nov 23 | 30 Apr 24 | **5,505** | **–** | **–** | **5,505** |
| | 22 Sep 15 | 4.0472 | 1 Nov 18 | 30 Apr 19 | **4,447** | – | **4,447** | **0** |

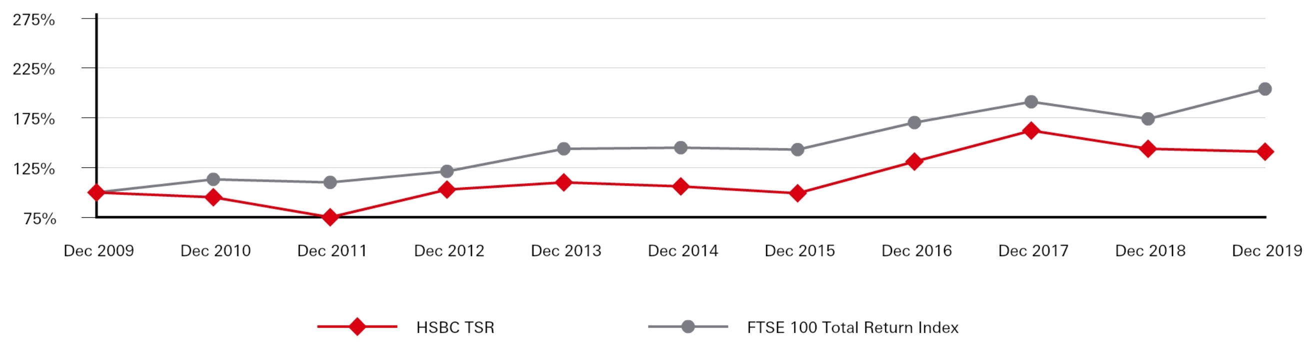
1 *John Flint exercised 4,447 Sharesave options on 13 March 2019. The HSBC closing price on this date was £6.201.*

The above awards were made under HSBC UK Sharesave, an all-employee share plan under which eligible employees may be granted options to acquire HSBC Holdings ordinary shares. The exercise price is determined by reference to the average market value of HSBC Holdings ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%. Employees may make contributions of up to £500 each month over a period of three or five years. The market value per ordinary share at 31 December 2019 was £5.919. 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.

## Summary of shareholder return and Group Chief Executive remuneration

The following graph shows the TSR performance against the FTSE 100 Total Return Index for the 10-year period that ended on 31 December 2019. The FTSE 100 Total Return Index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member. The single figure remuneration for the Group Chief Executive over the past 10 years, together with the outcomes of the respective annual incentive and long-term incentive awards, is presented in the following table.

HSBC TSR and FTSE 100 Total Return Index




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group Chief Executive | Michael Geoghegan | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | Stuart Gulliver | John Flint | **John Flint** | **Noel Quinn** |
| Total single figure £000 | 7,932 | 8,047 | 7,532 | 8,033 | 7,619 | 7,340 | 5,675 | 6,086 | 2,387 | 4,582 | **2,922** | **1,977** |
| Annual incentive[1] (% of maximum) | 82% | 58% | 52% | 49% | 54% | 45% | 64% | 80% | 76% | 76% | **61%** | **66%** |
| Long-term incentive[1,2,3] (% of maximum) | 19% | 50% | 40% | 49% | 44% | 41% | —% | —% | 100% | —% | **—%** | **—%** |

1 *The 2012 annual incentive figure for Stuart Gulliver used for this table includes 60% of the annual incentive disclosed in the 2012 Directors' remuneration report, which was deferred for five years and subject to service conditions and satisfactory completion of the five-year deferred prosecution agreement with the US Department of Justice, entered into in December 2012 ('AML DPA') as determined by the Committee. The AML DPA performance condition was met and the award vested in 2018. The value of the award at vesting was included in the 2018 single figure of remuneration and included as long-term incentive for 2018.*

2 *Long-term incentive awards are included in the single figure for the year in which the performance period is deemed to be substantially completed. For GPSP awards, this is the end of the financial year preceding the date of grant. GPSP awards shown in 2011 to 2015 are therefore related to awards granted in 2012 to 2016. For performance share awards that were awarded before introduction of GPSP, the value of awards that vested, subject to satisfaction of performance conditions attached to those awards, are included at the end of the third financial year following the date of grant. For example, performance share awards shown in 2010 relates to awards granted in 2008.*

3 *The GPSP was replaced by the LTI in 2016 and the value for GPSP is nil for 2016 as no GPSP award was made for 2016. LTI awards have a three-year performance period and the first LTI award was made in February 2017. The value of the LTI awards expected to vest will be included in the total single figure of remuneration of the year in which the performance period ends. John Flint and Noel Quinn did not receive the 2016 LTI award for which the performance period ended on 31 December 2019.*

## Comparison of Group Chief Executive and employee pay

The following table compares the changes in Group Chief Executive pay to changes in employee pay between 2018 and 2019.

Percentage change in remuneration between 2018 and 2019

| | Group Chief Executive | Employee group |
|---|---|---|
| Base salary[1] | 3% | 6% |
| Benefits[2, 3] | 34% | 2% |
| Annual incentive[4] | -20% | -4% |

1 *Employee group consists of local full-time UK employees as representative of employees from different businesses and functions across the Group. The change for the Group Chief Executive is based on the annualised base salary for the Group Chief Executive role to provide a meaningful comparison.*
2 *The change in the value of the benefit is due to the change in the value of the benefit as reported in the single figure table for the Group Chief Executive role.*
3 *For benefits, the employee group consists of UK employees, which was deemed the most appropriate comparison for the Group Chief Executive given varying local requirements.*
4 *For annual incentive, the employee group consists of all employees globally. The change is based on an annual incentive pool, as disclosed on page 44, and staff numbers are based on full-time equivalents at the financial year-end. The percentage change in annual incentive award of the Group Chief Executive is primarily driven by the difference in the 2018 and 2019 scorecard outcome, reflecting performance achieved in those years, and change in annual incentive maximum opportunity following reduction in cash in lieu of pension allowance. Details of the 2019 total single figure of remuneration for the Group Chief Executive are on page 191.*

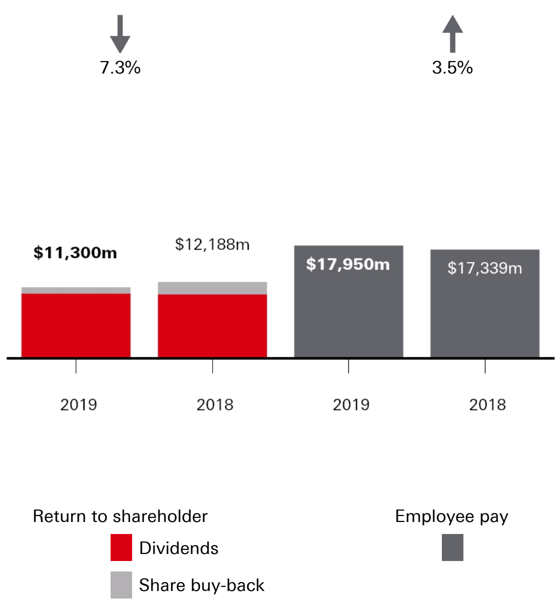
## Relative importance of spend on pay

The following chart shows the change in:

- total staff pay between 2018 and 2019; and
- dividends paid out in respect of 2018 and 2019.

In 2019 and 2018, we returned a total of $1bn and $2bn, respectively, to shareholders through share buy-backs.

Relative importance of spend on pay




## Pay ratio

The following table shows the ratio between the total pay of the Group Chief Executive and the lower quartile, median and upper quartile pay of our UK employees.

Total pay ratio

| | Method | Lower quartile | Median | Upper quartile |
|---|---|---|---|---|
| 2019 | A | 169 : 1 | 105 : 1 | 52 : 1 |

Total pay and benefits amounts used to calculate the ratio

| | | Lower quartile | | Median | | Upper quartile | |
|---|---|---|---|---|---|---|---|
| (£) | Method | Total pay and benefits | Total salary | Total pay and benefits | Total salary | Total pay and benefits | Total salary |
| 2019 | A | 28,920 | 24,235 | 46,593 | 41,905 | 93,365 | 72,840 |

Our ratios have been calculated using the option 'A' methodology prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are computed using full-time equivalent pay and benefits of all employees providing services in the UK at 31 December 2019. We believe this approach provides accurate information and representation of the ratios. The ratio has been computed taking into account the pay and benefits of over 40,000 UK employees, other than the individuals performing the role of Group Chief Executive. We calculated our lower quartile, median and upper quartile pay and benefits information for our UK employees using:

- full-time equivalent annualised fixed pay, which includes salary and allowances, at 31 December 2019;
- variable pay awards for 2019, including notional returns paid during 2019;
- gains realised from exercising awards from taxable employee share plans; and
- full-time equivalent value of taxable benefits and pension contributions.

For this purpose, full-time equivalent fixed pay and benefits for each employee have been computed by using each employee's fixed pay and benefits at 31 December 2019. Where an employee works part-time, fixed pay and benefits are grossed up, where appropriate, to full-time equivalent. One-off benefits provided on a temporary basis to employees on secondment to the UK have not been included in calculating the ratios above as these are not permanent in nature and in some cases, depending on individual circumstances, may not truly reflect a benefit to the employee.

Total pay and benefits for the Group Chief Executive have been calculated as the amounts in the single figure of remuneration table for both John Flint, who served as Group Chief Executive until 4 August 2019, and Noel Quinn, who served from 5 August 2019. The total remuneration does not include an LTI award as neither John Flint nor Noel Quinn received an LTI award that had a performance period that ended during 2019. In a year in which a value of an LTI is included in the single figure table of remuneration, the above ratios could be higher.

Given the different business mix, size of the business, methodologies for computing pay ratios, estimates and assumptions used by other companies to calculate their respective pay ratios, as well as differences in employment and compensation practices between companies, the ratios reported above may not be comparable to those reported by other listed peers on the FTSE 100 and our international peers.

In the *Annual Report and Accounts 2018*, we voluntarily disclosed a median pay ratio of 118:1. The decrease in median ratio is primarily driven by a lower annual incentive outcome for the Group Chief Executive (a 66.4% outcome in 2019 compared with 75.7% outcome in 2018) and a reduction in the cash in lieu of pension allowance for the executive Directors.

Total pay and benefits for the median employee for 2019 was4% higher at £46,593 compared with 2018.

Our UK workforce comprises a diverse mix of employees across different businesses and levels of seniority, from junior cashiers in our retail branches to senior executives managing our global business units. We aim to deliver market competitive pay for each role, taking into consideration the skills and experience required for the business. Our approach to pay is designed to attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. We actively promote learning and development opportunities for our employees to provide them a framework to develop their career. As an individual progresses in their career we would expect their total compensation opportunity to also increase, reflecting their role and responsibilities.

Pay structure varies across roles in order to deliver an appropriate mix of fixed and variable pay. Junior employees have a greater portion of their pay delivered in a fixed component, which does not vary with performance and allows them to predictably meet their day-to-day needs. Our senior management, including executive Directors, generally have a higher portion of their total compensation opportunity structured as variable pay and linked to the performance of the Group, given their role and ability to influence the strategy and performance of the Group. Executive Directors also have a higher proportion of their variable pay delivered in shares, which vest over a period of seven years with a post-vesting retention period of one year. During this deferral and retention period, the awards are linked to the share price so the value of award realised by them after the vesting and retention period will be aligned to the performance of the firm.

We are satisfied that the median pay ratio is consistent with the pay, reward and progression policies for our UK workforce, taking into account the diverse mix of our UK employees, the compensation structure mix applicable to each role and our objective of delivering market competitive pay for each role subject to Group, business and individual performance.

## Non-executive Directors

(Audited)

The following table shows the total fees and benefits of non-executive Directors for 2019, together with comparative figures for 2018.

### Fees and benefits

| (Audited) | | Fees[1] | | Benefits[2] | | Total | |
|---|---|---|---|---|---|---|---|
| (£000) | *Footnotes* | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Kathleen Casey | *3* | **223** | 171 | **9** | 23 | **232** | 194 |
| Henri de Castries | | **194** | 161 | **4** | 4 | **198** | 165 |
| Laura Cha | *4* | **298** | 255 | **—** | 13 | **298** | 268 |
| Lord Evans of Weardale (retired on 12 April 2019) | | **55** | 200 | **24** | 2 | **79** | 202 |
| Irene Lee | *5* | **454** | 361 | **3** | 5 | **457** | 366 |
| José Antonio Meade Kuribreña | *6* | **157** | — | **2** | — | **159** | — |
| Heidi Miller | *7* | **625** | 573 | **2** | 9 | **627** | 582 |
| David Nish | | **230** | 187 | **16** | 11 | **246** | 198 |
| Sir Jonathan Symonds | | **638** | 653 | **21** | 1 | **659** | 654 |
| Jackson Tai | *8* | **398** | 228 | **57** | 47 | **455** | 275 |
| Mark Tucker | *9* | **1,500** | 1,500 | **231** | 97 | **1,731** | 1,597 |
| Pauline van der Meer Mohr | | **265** | 239 | **8** | 17 | **273** | 256 |
| **Total** | | **5,037** | 4,528 | **377** | 229 | **5,414** | 4,757 |
| **Total ($000)** | | **6,425** | 6,039 | **481** | 305 | **6,906** | 6,344 |

*1 The Director's remuneration policy was approved at the 2019 AGM and the new fees became effective from 13 April 2019. Fees include a travel allowance of £4,000 for non-UK based non-executive Directors and for all non-executive Directors effective from 1 June 2019.*

*2 Benefits include taxable expenses such as accommodation, travel and subsistence relating to attendance at Board and other meetings at HSBC Holdings' registered office. Amounts disclosed have been grossed up using a tax rate of 45%, where relevant.*

*3 Reappointed as a member of the Financial System Vulnerabilities Committee on 12 April 2019.*

*4 Includes fees of £104,000 in 2019 (2018: £80,000) as a Director, Deputy Chairman and member of the Nomination Committee of The Hongkong and Shanghai Banking Corporation Limited.*

*5 Includes fees of £260,000 in 2019 (2018: £210,000) as a Director, Chair of the Remuneration Committee, and member of the Audit Committee and the Risk Committee of The Hongkong and Shanghai Banking Corporation Limited and as a Director, Chair of the Risk Committee and member of the Audit Committee of Hang Seng Bank Limited.*

*6 Appointed as a member of the Board and the Nomination & Corporate Governance Committee on 1 March 2019, and as a member of the Group Risk Committee on 1 June 2019.*

*7 Includes fees of £431,000 in 2019 (2018: £412,000) as Chair of HSBC North American Holdings Inc.*

*8 Appointed as a Chair of the Financial System Vulnerabilities Committee on 12 April 2019.*

*9 The Group Chairman's benefits in 2019 included £13,020 in respect of life assurance and £19,126 in respect of healthcare insurance, as approved by the Group Remuneration Committee.*

## Non-executive Directors' interests in shares

(Audited)

The shareholdings of persons who were non-executive Directors in 2019, including the shareholdings of their connected persons, at 31 December 2019, or date of cessation as a Director if earlier, are set out below. Non-executive Directors are expected to meet the shareholding guidelines within five years of the date of their appointment. All non-executive Directors who had been appointed for five years or more at 31 December 2019 met the guidelines.

### Shares

| | Shareholding guidelines (number of shares) | **Share interests (number of shares)** |
|---|---|---|
| Kathleen Casey | 15,000 | **15,125** |
| Laura Cha | 15,000 | **16,200** |
| Henri de Castries | 15,000 | **19,251** |
| Lord Evans of Weardale (retired on 12 April 2019) | 15,000 | **12,892** |
| Irene Lee | 15,000 | **11,904** |
| José Antonio Meade Kuribreña (appointed on 1 March 2019) | 15,000 | **—** |
| Heidi Miller | 15,000 | **15,700** |
| David Nish | 15,000 | **50,000** |
| Sir Jonathan Symonds | 15,000 | **43,821** |
| Jackson Tai | 15,000 | **66,515** |
| Mark Tucker | 15,000 | **307,352** |
| Pauline van der Meer Mohr | 15,000 | **15,000** |

## Voting results from Annual General Meeting

### 2019 Annual General Meeting voting results

| | **For** | **Against** | **Withheld** |
|---|---|---|---|
| Remuneration report | **96.81%** | **3.19%** | **—** |
| (votes cast) | **9,474,837,851** | **312,644,682** | **44,564,150** |
| Remuneration policy | 97.36% | 2.64% | — |
| (votes cast) | 9,525,856,097 | 258,383,075 | 47,468,297 |

## 2020 annual incentive scorecards

The weightings and performance measures for the 2020 annual incentive award for executive Directors are disclosed below. The performance targets for the annual incentive measures are commercially sensitive and it would be detrimental to the Group's interests to disclose them at the start of the financial year. Subject to commercial sensitivity, we will disclose the targets for a given year in the *Annual Report and Accounts* for that year in the Directors' remuneration report.

Executive Directors will be eligible for an annual incentive award of up to 215% of base salary.

### 2020 annual incentive scorecards measures and weightings

| **Measures** | **Group Chief Executive %** | **Group Chief Financial Officer %** |
|---|---|---|
| Grow profit before tax | **30.0** | **20.0** |
| RWA optimisation | **20.0** | **20.0** |
| Customer satisfaction | **10.0** | **10.0** |
| Employee experience | **10.0** | **10.0** |
| Environment[1] | **10.0** | **10.0** |
| Risk and compliance | **10.0** | **10.0** |
| Personal objectives | **10.0** | **20.0** |
| **Total** | **100.0** | **100.0** |

1 *Environment measure will assess performance against reduction in carbon emissions, financing and investment of sustainable businesses and projects and improvement in climate risk management and organisational behaviours.*

The 2020 annual incentive is subject to a risk and compliance underpin, which gives the Committee the discretion to adjust down the overall scorecard outcome to ensure that the Group operates within risk and/or compliance tolerance when achieving its financial targets. For this purpose, the Committee will receive information including any risk thresholds outside of tolerance for a significant period of time and any risk management failures that have resulted in significant customer detriment, reputational damage and/or regulatory censure.

## Long-term incentives

Details of the performance measures and targets for LTI awards to be made in 2020, in respect of 2019, are provided on page 195.

The performance measures and targets for awards to be made in respect of 2020, granted in 2021, will be provided in the *Annual Report and Accounts 2020*.

## Workforce remuneration

### Remuneration principles

Our pay and performance strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders.

With this in mind, the key principles that underpin the performance and pay decisions for our workforce are outlined below.

| Principle | Our approach in 2019 |
|---|---|
| **Fair, appropriate and free from bias** | • We increased the use of simplified or guided decision making to support managers, particularly the less experienced ones, to make informed, consistent and fair pay decisions. Managers of 96% of our junior employees are now supported by simplified or guided decision making.<br>• Our simpler and more transparent framework for determining variable pay awards for our junior employees has streamlined the parameters and principles that managers are asked to consider and apply when making fixed and variable pay recommendations.<br>• Managers in similar roles come together to review the performance and behaviour ratings of their team and make any necessary adjustments based on that review of the peer group to mitigate the risk of bias and take a broader view of team performance.<br>• As part of our annual pay review we undertake analytical reviews to check and identify for bias and provide these reports to our senior management and Group Remuneration Committee as part of their review of annual pay review outcomes.<br>• We review our pay practices regularly and also work with independent third parties to review equal pay. If pay differences are identified that are not due to an objective reason such as performance or skills and experience, we make adjustments.<br>• We make pay and performance reporting tools available to our managers for the purpose of undertaking an analytical review of pay decisions for their team. |
| **Reward and recognise sustainable performance and values-aligned behaviour** | • We have a robust performance management process that underpins our approach and aligns reward with sustainable Group, business and individual performance, and drives clear pay differentiation.<br>• Group and business unit performance is used in determining the Group variable pay pool and its allocation to each business unit. Where performance in a year is weak, as measured by both financial and non-financial metrics, this will have a direct and proportionate impact on the relevant pool.<br>• Assessment of individual performance is made with reference to a balanced scorecard of clear and relevant financial and non-financial objectives, including appropriate risk and compliance objectives.<br>• We believe it is important to recognise our people not just for results, but also for upholding our values. As such, subject to local law, employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved. Our leaders set the tone by valuing the behaviours that get a job done as much as the outcome.<br>• We also undertake analytical reviews to ensure there is clear pay differentiation across both performance and behaviour ratings, which are provided to senior management and the Group Remuneration Committee as part of their oversight of the remuneration outcomes for the Group's workforce.<br>• We recognise examples of exceptional positive conduct through an increase in variable pay, and apply a reduction in variable pay for misconduct or inappropriate behaviour that exposes us to financial, regulatory or reputational risk.<br>• Our global 'At Our Best' recognition programme allows our people to award recognition points to their colleagues that can be redeemed against a wide range of goods. In 2019, under this programme, we ran a special 'Spotlight on customer service' campaign, which resulted in 65,500 recognitions over a three-month period, and our GB&M business ran a special campaign recognising outstanding examples of good conduct.<br>• We promote employee share ownership through variable pay deferral or voluntary enrolment in an all-employee share plan, which assists with incentivising long-term sustainable performance. |
| **Competitive, simple and transparent total compensation packages** | • We maintain an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and the market.<br>• We ensure fixed pay increases are consistently targeted towards our junior population where fixed pay represents a higher proportion of total compensation.<br>• We continue to embed our simpler and more transparent framework for determining variable pay awards for our junior employees, launched in 2018, with a view to ensuring employees have more visibility and clarity on the factors that influence their total remuneration.<br>• We offer employee benefits that are valued by a diverse workforce, appropriate at the local market level and support HSBC's commitment to employee well-being.<br>• We are informed, but not driven, by market position and practice.<br>• We apply the legal minimum wage in all countries and territories where we operate. In 2014, HSBC in the UK was formally accredited by the Living Wage Foundation for having adopted the 'Living Wage' and the 'London Living Wage'. |
| **Supporting a culture of continuous feedback through manager and employee empowerment** | • We seek to create a culture where our people can fulfil their potential, gain new skills and develop their careers for the future.<br>• To support this, we promote a continuous feedback culture, Everyday Performance and Development, and encourage all our people to have regular conversations with their line managers about their performance, pay, development and well-being throughout the year, in addition to their formal annual review discussions.<br>• We also encourage them to use our online career planning tools to help them with their thinking about future roles and the capabilities they require.<br>• Line managers are provided with clear guidance materials to support them in making fair and appropriate decisions at key stages in the performance and pay decision-making process.<br>• Employees also receive notifications and guidance throughout the performance and pay review period to support their understanding of what is expected of them and what they can expect. |
| **Compliance with regulations** | • We comply with relevant regulations and ensure this applies at a high standard, taking into account the spirit of the regulations across all of our countries and territories. |

## Remuneration structure

Total compensation, which comprises fixed and variable pay, is the key focus of our remuneration framework, with variable pay differentiated by performance and adherence to the HSBC Values.

We set out below the key features and design characteristics of our remuneration framework, which apply on a Group-wide basis, subject to compliance with local laws:

### Overview of remuneration structure for employees

| Remuneration components and objectives | Application |
|---|---|
| **Fixed pay**<br>Attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. | • Fixed pay may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices. These pay elements are based on predetermined criteria, are non-discretionary, are transparent and are not reduced based on performance.<br>• Fixed pay represents a higher proportion of total compensation for more junior employees.<br>• Elements of fixed pay may change to reflect an individual's position, role or grade, cost of living in the country, individual skills, competencies, capabilities and experience.<br>• Fixed pay is generally delivered in cash on a monthly basis. |
| **Benefits**<br>Provided in accordance with local market practice. | • Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support. |
| **Annual incentive**[1]<br>Incentivise and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and adherence to HSBC Values. | • All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined on the basis of individual performance against a balanced scorecard.<br>• Annual incentives represent a higher proportion of total compensation for more senior employees and will be more closely aligned to Group and business performance as seniority increases.<br>• Variable pay awards for all Group employees identified as MRTs under European Union Regulatory Technical Standard ('RTS') 604/2014 are limited to 200% of fixed pay.[2]<br>• Awards are generally paid in cash and shares. For MRTs, at least 50% of the awards are in shares and/or where required by regulations, in units linked to asset management funds.<br>• A portion of the annual incentive award may be deferred and vest over a period of three, five or seven years. |
| **Deferral**<br>Alignment with the medium- to long-term strategy, stakeholder interests and adherence to the HSBC Values. | • A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period with 33% vesting on the first and second anniversaries of grant and 34% on the third anniversary. Local employees in France are granted deferred awards that vest 66% on the second anniversary and 34% on the third anniversary.<br>• For MRTs identified in accordance with the UK's PRA and FCA remuneration rules, awards are generally subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of three years[3]. A longer deferral period is applied for certain MRTs as follows:<br>– five years for individuals identified in a risk-manager MRT role under the PRA and FCA remuneration rules. This reflects the deferral period prescribed by both the PRA and the European Banking Authority for individuals performing key senior roles with the Group; or<br>– seven years for individuals in PRA-designated senior management functions, being the deferral period mandated by the PRA as reflecting the typical business cycle period.<br>• Individuals based outside the UK who have not been identified at the Group level as an MRT, but who are identified as MRTs under local regulations, are generally subject to a three-year deferral period. In Germany, a deferral period of up to eight years is applied for members of the local management board and individuals in managerial roles reporting into the management board. In Malta, a five-year deferral period is applied for executive committee members. In Australia, local MRTs are subject to a four-year deferral period in respect of deferred cash awards. Local MRTs are also subject to the minimum deferral rates discussed above, except in China (where a minimum deferral rate of 50% is applied for the Chief Executive Officer), Germany (where a minimum deferral rate of 60% is applied for members of the local management board and individuals in managerial roles reporting into the management board) and Oman (where a minimum deferral rate of 45% is applied).<br>• Where an employee is subject to more than one regulation, the requirement that is specific to the sector and/or country in which the individual is working is applied, subject to meeting the minimum requirements applicable under each regulation.<br>• All deferred awards are subject to malus provisions, subject to compliance with local laws. Awards granted to MRTs on or after 1 January 2015 are also subject to clawback.<br>• HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities. |
| **Deferral instruments**<br>Alignment with the medium- to long-term strategy, stakeholder interests and adherence to the HSBC Values. | • Generally, the underlying instrument for all deferred awards is HSBC shares to ensure alignment between the long-term interest of our employees and shareholders.<br>• For Group and local MRTs, excluding executive Directors where deferral is typically in the form of shares only, a minimum of 50% of the deferred awards is in HSBC shares and the balance is deferred into cash. In accordance with local regulatory requirements, local MRTs in Brazil and Oman, 100% of the deferred amount is delivered in shares or linked to the value of shares.<br>• For some employees in our asset management business, where required by the regulations applicable to asset management entities within the Group, at least 50% of the deferred awards is linked to fund units reflective of funds managed by those entities, with the remaining portion of deferred awards being in the form of deferred cash awards. |

Overview of remuneration structure for employees (continued)

| Remuneration components and objectives | Application |
|---|---|
| **Post-vesting retention period**<br>Ensure appropriate alignment with shareholders. | • Variable pay awards made in HSBC shares or linked to relevant fund units granted to MRTs are generally subject to a one-year retention period post-vesting. Local MRTs (except those in Brazil, France, Oman and Russia) are also generally subject to a one-year retention period post-vesting. For local MRTs in Brazil, France and Russia, a six-month retention period is applied. No retention period is applied for local MRTs in Oman.<br>• MRTs who are subject to a five-year deferral period, except senior management or individuals in PRA- and FCA-designated senior management functions, have a six-month retention period applied to their awards. |
| **Buy-out awards**<br>Support recruitment of talent. | • Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer.<br>• The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer. |
| **Guaranteed variable remuneration**<br>Support recruitment of talent. | • Guaranteed variable remuneration is awarded in exceptional circumstances for new hires, and is limited to the individual's first year of employment only.<br>• The exceptional circumstances where HSBC would offer guaranteed variable remuneration would typically involve a critical new hire and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year. |
| **Severance payments**<br>Adhere to contractual agreements with involuntary leavers. | • Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the Group's policy is not to make any severance payment in such cases. For such individuals, all outstanding unvested awards are forfeited.<br>• For other cases of involuntary termination of employment the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case.<br>• Generally, all outstanding unvested awards will normally continue to vest in line with the applicable vesting dates. Where relevant, any performance conditions attached to the awards, and malus and clawback provisions, will remain applicable to those awards.<br>• Severance amounts awarded to MRTs are considered as fixed pay where such amounts include: (i) payments of fixed remuneration that would have been payable during the notice and/or consultation period; (ii) statutory severance payments; (iii) payments determined in accordance with any approach applicable in the relevant jurisdictions; and (iv) payments made to settle a potential or actual dispute. |

1 *Executive Directors are also eligible to be considered for a long-term incentive award. See details on page 187.*
2 *Shareholders approved the increase in the maximum ratio between the fixed and variable components of total remuneration from 1:1 to 1:2 at the 2014 AGM held on 23 May 2014 (98% in favour). The Group has also used the discount rate of 14.8% for individuals with seven-year deferral period and 7.2% for individuals with five-year deferral period. This discount rate was used for one MRT in the UK and one MRT in the US.*
3 *In accordance with the terms of the PRA and FCA remuneration rules, and subject to compliance with local regulations, the deferral requirement for MRTs is not applied to individuals where their total compensation is £500,000 or less and variable pay is not more than 33% of total compensation. For these individuals, the Group standard deferral applies.*

## Link between risk, performance and reward

Our remuneration practices promote sound and effective risk management while supporting our business objectives.

We set out below the key features of our remuneration framework, which help enable us to achieve alignment between risk, performance and reward, subject to compliance with local laws and regulations:

### Alignment between risk and reward

| Framework elements | Application |
|---|---|
| **Variable pay pool and individual performance scorecard** | The Group variable pay pool is expected to move in line with Group performance. We also use a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance.<br>The main quantitative and qualitative performance and risk metrics used for assessment of performance include:<br>• Group and business unit financial performance;<br>• current and future risks, taking into consideration performance against the risk appetite statement ('RAS'), annual operating plan and global conduct outcomes;<br>• fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit; and<br>• assessment of individual performance with reference to a balanced scorecard of clear and relevant objectives. Risk and compliance objectives are included in the performance scorecard of senior management and a mandatory global risk objective is included in the scorecard of all other employees. All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved. |
| **Remuneration for control function staff** | • The performance and reward of individuals in control functions, including risk and compliance employees, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake. This is to ensure their remuneration is determined independent of the performance of the business areas they oversee.<br>• The Committee is responsible for approving the remuneration recommendations for the Group Chief Risk Officer and senior management in control functions.<br>• Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are led by, and must carry the approval of, the global function head.<br>• Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level. |
| **Variable pay adjustments and conduct recognition** | • Variable pay awards may be adjusted downwards in circumstances including:<br>– detrimental conduct, including conduct that brings HSBC into disrepute;<br>– involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and<br>– non-compliance with the HSBC Values and other mandatory requirements or policies.<br>• Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards. |
| **Malus** | Malus can be applied to unvested deferred awards granted in prior years in circumstances including:<br>• detrimental conduct, including conduct that brings the business into disrepute;<br>• past performance being materially worse than originally reported;<br>• restatement, correction or amendment of any financial statements; and<br>• improper or inadequate risk management. |
| **Clawback** | Clawback can be applied to vested or paid awards granted to MRTs on or after 1 January 2015 for a period of seven years, extended to 10 years for employees under the PRA's Senior Managers Regime in the event of ongoing internal/regulatory investigation at the end of the seven-year period. Clawback may be applied in circumstances including:<br>• participation in, or responsibility for, conduct that results in significant losses;<br>• failing to meet appropriate standards and propriety;<br>• reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and<br>• a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures. |
| **Sales incentives** | • We generally do not operate commission-based sales plans. |
| **Identification of MRTs** | • We identify individuals as MRTs based on the qualitative and quantitative criteria set out in the RTS. We also identify MRTs based on additional criteria developed internally. The following key principles underpin HSBC's identification process:<br>– MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level.<br>– MRTs are also identified at other solo regulated entity level as required by the regulations.<br>– When identifying an MRT, HSBC considers an employee's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work.<br>• In addition to applying the qualitative and quantitative criteria specified in the RTS, we also identify additional MRTs based on our own internal criteria, which included compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the criteria prescribed in the RTS.<br>• The list of MRTs, and any exclusions from it, is reviewed by chief risk officers and chief operating officers of the relevant global businesses and functions. The overall results are reviewed by the Group Chief Risk Officer.<br>• The Group Remuneration Committee reviews the methodology, key decisions regarding identification, and the results of the identification exercise, including proposed MRT exclusions. |

## Additional remuneration disclosures

This section provides disclosures required under the Hong Kong Ordinances, Hong Kong Listing Rules and the Pillar 3 remuneration disclosures.

For the purpose of the Pillar 3 remuneration disclosures, executive Directors and non-executive Directors are considered to be members of the management body. Members of the Group Management Board other than the executive Directors are considered as senior management.

## MRT remuneration disclosures

The following tables set out the remuneration disclosures for individuals identified as MRTs for HSBC Holdings. Remuneration information for individuals who are only identified as MRTs at HSBC Bank plc, HSBC UK Bank plc or other solo-regulated entity levels is included, where relevant, in those entities' disclosures.

The 2019 variable pay information included in the following tables is based on the market value of awards granted to MRTs. For share awards, the market value is based on HSBC Holdings' share price at the date of grant (unless indicated otherwise). For cash awards, it is the value of awards expected to be paid to the individual over the deferral period.

### Remuneration – fixed and variable amounts (REM1)

| | | Fixed ($m) | | | Variable[2] ($m) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of MRTs | Cash-based[1] | Share-based | Total | Cash-based | *Of which: deferred* | Share-based[3] | *Of which: deferred* | Other forms | *Of which: deferred* | Total | Total ($m) |
| Executive Directors | 4 | 5.9 | 5.5 | 11.4 | 3.1 | *1.2* | 8.6 | *6.6* | – | – | 11.7 | 23.1 |
| Non-executive Directors | 12 | 6.9 | – | 6.9 | – | – | – | – | – | – | – | 6.9 |
| Senior management | 18 | 33.6 | – | 33.6 | 20.8 | *12.6* | 24.4 | *16.2* | – | – | 45.2 | 78.8 |
| Investment banking | 585 | 360.9 | – | 360.9 | 159.0 | *81.3* | 168.3 | *91.5* | – | – | 327.3 | 688.2 |
| Retail banking | 155 | 86.5 | – | 86.5 | 36.3 | *18.0* | 41.8 | *23.9* | – | – | 78.1 | 164.6 |
| Asset management | 26 | 18.1 | – | 18.1 | 6.3 | *2.8* | 3.8 | *2.1* | 2.6 | *1.6* | 12.7 | 30.8 |
| Corporate functions | 151 | 78.9 | – | 78.9 | 33.0 | *15.5* | 32.9 | *17.3* | – | – | 65.9 | 144.8 |
| Independent control functions | 135 | 62.3 | – | 62.3 | 21.5 | *8.7* | 21.4 | *11.0* | 0.1 | – | 43.0 | 105.3 |
| All other | 73 | 51.7 | – | 51.7 | 20.6 | *11.2* | 22.9 | *12.9* | – | – | 43.5 | 95.2 |
| **Total** | **1,159** | **704.8** | **5.5** | **710.3** | **300.6** | ***151.3*** | **324.1** | ***181.5*** | **2.7** | ***1.6*** | **627.4** | **1,337.7** |

1 *Cash-based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2019. In accordance with shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration.*
3 *Share-based awards are made in HSBC shares. Vested shares are subject to a retention period of up to one year.*

### Guaranteed bonus, sign-on and severance payments (REM2)

| | Guaranteed bonus and sign-on payments[1] | | Severance payments[2] | | | | |
|---|---|---|---|---|---|---|---|
| | Made during year ($m) | Number of beneficiaries | Awarded during year ($m) | Number of beneficiaries | Highest such award to a single person ($m) | Paid during year ($m) | Number of beneficiaries |
| Executive Directors | – | – | – | – | – | – | – |
| Senior management | 6.0 | 3 | 1.8 | 1 | 1.8 | 1.8 | 1 |
| Investment banking | 7.3 | 9 | 19.9 | 31 | 3.1 | 15.6 | 23 |
| Retail banking | – | – | 2.4 | 6 | 0.7 | 1.7 | 5 |
| Asset management | – | – | 0.2 | 1 | 0.2 | 0.2 | 1 |
| Corporate functions | 2.3 | 4 | 11.0 | 14 | 2.7 | 6.5 | 12 |
| Independent control functions | – | – | 1.2 | 3 | 0.6 | 1.1 | 2 |
| All other | – | – | 1.6 | 2 | 0.9 | 1.6 | 2 |
| **Total** | **15.6** | **16** | **38.1** | **58** | | **28.5** | **46** |

1 *No sign-on payments were made in 2019. A guaranteed bonus is awarded in exceptional circumstances for new hires, and in the first year only. The circumstances where HSBC would offer a guaranteed bonus would typically involve a critical new hire, and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefit entitlements triggered on terminations).*

## Deferred remuneration at 31 December[1] (REM3)

| $m | Total outstanding[2] | *Of which: unvested* | *Of which: total outstanding deferred and retained exposed to ex post explicit and/or implicit adjustment* | Total amount of amendment during the year due to ex post implicit adjustment | Total amount of amendment during the year due to ex post explicit adjustment[3] | Total amount of deferred paid out in the financial year[4] |
|---|---|---|---|---|---|---|
| **Cash** | | | | | | |
| Executive Directors | 4.6 | *4.6* | *4.6* | – | – | 0.7 |
| Senior management | 35.4 | *35.4* | *35.4* | – | – | 4.7 |
| Investment banking | 185.8 | *185.8* | *185.8* | – | – | 66.4 |
| Retail banking | 38.4 | *38.4* | *38.4* | – | – | 12.2 |
| Asset management | 8.4 | *8.4* | *8.4* | – | – | 4.3 |
| Corporate functions | 30.7 | *30.7* | *30.7* | – | – | 10.4 |
| Independent control functions | 19.6 | *19.6* | *19.6* | – | – | 4.9 |
| All other | 23.2 | *23.2* | *23.2* | – | – | 8.3 |
| **Shares** | | | | | | |
| Executive Directors | 37.9 | *33.8* | *37.9* | (2.9) | – | 2.0 |
| Senior management | 53.8 | *43.1* | *53.8* | (4.2) | – | 7.3 |
| Investment banking | 251.8 | *208.7* | *251.8* | (17.7) | – | 101.5 |
| Retail banking | 53.3 | *44.2* | *53.3* | (3.7) | – | 20.5 |
| Asset management | 6.7 | *5.1* | *6.7* | (0.5) | – | 3.5 |
| Corporate functions | 52.1 | *42.5* | *52.1* | (3.9) | – | 18.6 |
| Independent control functions | 25.4 | *23.5* | *25.4* | (1.8) | – | 15.5 |
| All other | 34.9 | *26.9* | *34.9* | (2.4) | – | 12.1 |
| **Other forms** | | | | | | |
| Executive Directors | – | – | – | – | – | – |
| Senior management | – | – | – | – | – | – |
| Investment banking | – | – | – | – | – | – |
| Retail banking | – | – | – | – | – | – |
| Asset management | 7.5 | *6.1* | *7.5* | 1.0 | – | 1.9 |
| Corporate functions | – | – | – | – | – | – |
| Independent control functions | 0.1 | *0.1* | *0.1* | – | – | – |
| All other | – | – | – | – | – | – |

1 *This table provides details of balances and movements during performance year 2019. For details of variable pay awards granted for 2019, refer to the 'Remuneration – fixed and variable pay amounts' table. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC shares.*
2 *Includes unvested deferred awards and vested deferred awards subject to retention period at 31 December 2019.*
3 *Includes any amendments due to malus or clawback. Page 205 provides details of in-year variable pay adjustments.*
4 *Shares are considered as paid when they vest. Vested shares are valued using the sale price or the closing share price on the business day immediately preceding the vesting day.*

## MRTs' remuneration by band[1]

| | Management body | All other | Total |
|---|---|---|---|
| €0 – 1,000,000 | 11 | 728 | 739 |
| €1,000,000 – 1,500,000 | – | 244 | 244 |
| €1,500,000 – 2,000,000 | – | 83 | 83 |
| €2,000,000 – 2,500,000 | 1 | 31 | 32 |
| €2,500,000 – 3,000,000 | – | 18 | 18 |
| €3,000,000 – 3,500,000 | 1 | 11 | 12 |
| €3,500,000 – 4,000,000 | – | 10 | 10 |
| €4,000,000 – 4,500,000 | – | 6 | 6 |
| €4,500,000 – 5,000,000 | 1 | 5 | 6 |
| €5,000,000 – 6,000,000 | – | 3 | 3 |
| €6,000,000 – 7,000,000 | 2 | 2 | 4 |
| €7,000,000 – 8,000,000 | – | 1 | 1 |
| €8,000,000 – 9,000,000 | – | – | – |
| €9,000,000 – 10,000,000 | – | 1 | 1 |

1 *Table prepared in euros in accordance with Article 450 of the European Union Capital Requirements Regulation, using the exchange rates published by the European Commission for financial programming and budget for December of the reported year as published on its website.*

## Directors' emoluments

The details of compensation paid to executive and non-executive Directors for the year ended 31 December 2019 are set out below.

### Emoluments

| | Noel Quinn | | John Flint | | Ewen Stevenson | | Marc Moses | | Non-executive Directors | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Basic salaries, allowances and benefits | **1,312** | — | **1,991** | 2,863 | **1,820** | — | **1,849** | 1,911 | **5,414** | 4,757 |
| Pension contributions | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Performance-related pay paid or receivable[1] | **665** | — | **891** | 5,505 | **3,176** | | **926** | 3,556 | **—** | — |
| Inducements to join paid or receivable | **—** | — | **—** | — | **1,974** | — | **—** | — | **—** | — |
| Compensation for loss of office | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Notional return on deferred cash | **—** | — | **40** | 54 | **—** | — | **17** | 33 | **—** | — |
| **Total** | **1,977** | — | **2,922** | 8,422 | **6,970** | — | **2,792** | 5,500 | **5,414** | 4,757 |
| **Total ($000)** | **2,522** | — | **3,727** | 11,232 | **8,890** | — | **3,561** | 7,335 | **6,906** | 6,344 |

*1 Includes the value of the deferred and LTI awards at grant.*

The aggregate amount of Directors' emoluments (including both executive Directors and non-executive Directors) for the year ended 31 December 2019 was $26m. As per our policy, benefits in kind may include, but are not limited to, the provision of medical insurance, income protection insurance, health assessment, life assurance, club membership, tax assistance, car benefit, travel assistance and relocation costs (including any tax due on these benefits, where applicable). Post-employment medical insurance benefit was provided to former Directors, including Douglas Flint valued at £5,201 ($6,634), Alexander Flockhart valued at £1,621 ($2,068), Stuart Gulliver valued at £5,201 ($6,634) and Iain Mackay at £998 ($1,273) during the year ended 31 December 2019. Tax support fees of £10,440 ($13,316) were also provided for Iain Mackay during this period. The aggregate value of Director retirement benefits for current Directors is nil. Amounts are converted into US dollars based on the average year-to-date exchange rates for the respective year.

There were payments under retirement benefit arrangements with former Directors of $404,037. The provision at 31 December 2019 in respect of unfunded pension obligations to former Directors amount to $7,727,021.

### Emoluments of senior management and five highest paid employees

The following table sets out the details of emoluments paid to senior management, which in this case comprises executive Directors and members of the Group Management Board, for the year ended 31 December 2019, or for the period of appointment in 2019 as a Director or member of the Group Management Board. Details of the remuneration paid to the five highest paid employees, comprising one executive Director and four Group Managing Directors, for the year ended 31 December 2019, are also presented.

### Emoluments

| | **Five highest paid employees** | **Senior management** |
|---|---|---|
| | **£000** | **£000** |
| Basic salaries, allowances and benefits in kind | **13,100** | **38,459** |
| Pension contributions | **18** | **168** |
| Performance-related pay paid or receivable[1] | **16,834** | **40,746** |
| Inducements to join paid or receivable | **13,987** | **14,253** |
| Compensation for loss of office | **—** | **1,415** |
| **Total** | **43,939** | **95,041** |
| **Total ($000)** | **56,044** | **121,224** |

*1 Includes the value of deferred shares awards at grant.*

### Emoluments by bands

| Hong Kong dollars | US dollars | **Number of highest paid employees** | **Number of senior management** |
|---|---|---|---|
| $7,500,001 – $8,000,000 | $957,200 – $1,021,013 | **—** | **2** |
| $9,000,001 – $9,500,000 | $1,148,640 – $1,212,453 | **—** | **1** |
| $22,000,001 – $22,500,000 | $2,807,786 – $2,871,599 | **—** | **1** |
| $25,500,001 – $26,000,000 | $3,254,479 – $3,318,292 | **—** | **1** |
| $27,500,001 – $28,000,000 | $3,509,732 – $3,573,545 | **—** | **1** |
| $28,000,001 – $28,500,000 | $3,573,546 – $3,637,359 | **—** | **1** |
| $28,500,001 – $29,000,000 | $3,637,359 – $3,701,172 | **—** | **1** |
| $30,000,001 – $30,500,000 | $3,828,799 – $3,892,612 | **—** | **1** |
| $33,000,001 – $33,500,000 | $4,211,679 – $4,275,492 | **—** | **1** |
| $33,500,001 – $34,000,000 | $4,275,492 – $4,339,305 | **—** | **2** |
| $37,000,001 – $37,500,000 | $4,722,185 – $4,785,998 | **—** | **1** |
| $37,500,001 – $38,000,000 | $4,785,998 – $4,849,812 | **—** | **1** |
| $46,500,001 – $47,000,000 | $5,934,638 – $5,998,451 | **—** | **1** |
| $47,500,001 – $48,000,000 | $6,062,265 – $6,126,078 | **—** | **1** |
| $52,500,001 – $53,000,000 | $6,700,398 – $6,764,211 | **—** | **1** |
| $63,500,001 – $64,000,000 | $8,104,291 – $8,168,104 | **1** | **1** |
| $70,500,001 – $71,000,000 | $8,997,677 – $9,061,490 | **1** | **1** |
| $74,000,001 – $74,500,000 | $9,444,370 – $9,508,183 | **1** | **1** |
| $112,500,001 – $113,000,000 | $14,357,995 – $14,421,808 | **1** | **1** |
| $117,000,001 – $117,500,000 | $14,932,315 – $14,996,128 | **1** | **1** |

## Share capital and other disclosures

### Share buy-back programme

On 6 August 2019, HSBC Holdings commenced a share buy-back to purchase its ordinary shares of $0.50 each up to a maximum consideration of $1.0bn. This programme concluded on 26 September 2019, after the purchase and cancellation of 135,776,994 ordinary shares. The purpose of the buy-back programme was to reduce HSBC's number of outstanding ordinary shares.

The nominal value of shares purchased during 2019 was $67,888,497 and the aggregate consideration paid by HSBC was £817,587,930.

The table that follows outlines details of the shares purchased on a monthly basis during 2019. The total number of shares purchased during the year was 135,776,994, representing 0.66% of the shares in issue and 0.67% of the shares in issue, excluding treasury shares.

| Month | Number of shares | Highest price paid per share £ | Lowest price paid per share £ | Average price paid per share £ | Aggregate price paid £ |
|---|---|---|---|---|---|
| **Share buy-back of 2019** | | | | | |
| Aug-19 | **93,613,105** | **6.3790** | **5.7830** | **6.0033** | **561,986,347** |
| Sep-19 | **42,163,889** | **6.2810** | **5.8630** | **6.0621** | **255,601,583** |
| | **135,776,994** | | | | **817,587,930** |

### Dividends

#### Dividends for 2019

First, second and third interim dividends for 2019, each of $0.10 per ordinary share, were paid on 5 July 2019, 26 September 2019 and 20 November 2019, respectively. Note 8 on the financial statements gives more information on the dividends declared in 2019. On 18 February 2020, the Directors declared a fourth interim dividend for 2019 of $0.21 per ordinary share in lieu of a final dividend, which will be payable on 14 April 2020 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 30 March 2020, with a scrip dividend alternative. As the fourth interim dividend for 2019 was declared after 31 December 2019, it has not been included in the balance sheet of HSBC as a liability. The reserves available for distribution at 31 December 2019 were $31.7bn.

A quarterly dividend of $15.50 per 6.20% non-cumulative US dollar preference share, Series A ('Series A dollar preference share'), (equivalent to a dividend of $0.3875 per Series A American Depositary Share ('ADS'), each of which represents 1/40th of a Series A dollar preference share), and £0.01 per Series A sterling preference share was paid on 15 March, 17 June, 16 September and 16 December 2019.

#### Dividends for 2020

Quarterly dividends of $15.50 per Series A dollar preference share (equivalent to a dividend of $0.3875 per Series A ADS, each of which represents 1/40th of a Series A dollar preference share) and £0.01 per Series A sterling preference share were declared on 3 February 2020 for payment on 16 March 2020.

### Share capital

#### Issued share capital

The nominal value of HSBC Holdings' issued share capital paid up at 31 December 2019 was $10,319,276,773 divided into 20,638,524,545 ordinary shares of $0.50 each, 1,450,000 non-cumulative preference shares of $0.01 each and one non-cumulative preference share of £0.01, representing approximately 99.9999%, 0.0001%, and 0% respectively of the nominal value of HSBC Holdings' total issued share capital paid up at 31 December 2019.

#### Rights, obligations and restrictions attaching to shares

The rights and obligations attaching to each class of ordinary and non-cumulative preference shares in our share capital are set out in full in our Articles of Association. The Articles of Association may be amended by special resolution of the shareholders and can be found on our website at www.hsbc.com/our-approach/corporate-governance/board-responsibilities.

##### Ordinary shares

HSBC Holdings has one class of ordinary share, which carries no right to fixed income. There are no voting restrictions on the issued ordinary shares, all of which are fully paid. On a show of hands, each member present has the right to one vote at general meetings. On a poll, each member present or voting by proxy is entitled to one vote for every $0.50 nominal value of share capital held. There are no specific restrictions on transfers of ordinary shares, which are governed by the general provisions of the Articles of Association and prevailing legislation.

At the 2019 AGM, shareholders gave authority to the Directors to offer a scrip dividend alternative on any dividend (including interim dividends) declared up to the conclusion of the AGM in 2022.

*Information on the policy adopted by the Board for paying interim dividends on the ordinary shares may be found on page 323, under the heading 'Shareholder information'.*

##### Dividend waivers

HSBC Holdings' employee benefit trusts, which hold shares in HSBC Holdings in connection with the operation of its share plans, have lodged standing instructions to waive dividends on shares held by them that have not been allocated to employees. The total amount of dividends waived during 2019 was $3.4m.

##### Preference shares

The preference shares, which have preferential rights to income and capital, do not, in general, confer a right to attend and vote at general meetings.

There are three classes of preference shares in the share capital of HSBC Holdings: 6.20% non-cumulative US dollar preference shares, Series A of $0.01 each ('dollar preference shares'); non-cumulative preference shares of £0.01 each ('sterling preference shares'); and non-cumulative preference shares of €0.01 ('euro preference shares'). The dollar preference shares in issue are Series A dollar preference shares and the sterling preference share in issue is a Series A sterling preference share. There are no euro preference shares in issue.

*Information on dividends declared for 2019 and 2020 may be found on page 261, under the heading 'Dividends' and in Note 8 on the financial statements.*

*Further details of the rights and obligations attaching to the HSBC Holdings' issued share capital may be found in Note 31 on the financial statements.*

#### Compliance with Hong Kong Listing Rule 13.25A(2)

HSBC Holdings has been granted a waiver from strict compliance with Rule 13.25A(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong.

Under this waiver, HSBC's obligation to file a Next Day Return following the issue of new shares, pursuant to the vesting of share awards granted under its share plans to persons who are not Directors, would only be triggered where it falls within one of the circumstances set out under Rule 13.25A(3).

## Share capital changes in 2019

The following events occurred during the year in relation to the ordinary share capital of HSBC Holdings:

### Scrip dividends

| | HSBC Holdings ordinary shares issued | | Aggregate nominal value | Market value per share | |
|---|---|---|---|---|---|
| | on | number | $ | $ | £ |
| **Issued in lieu of** | | | | | |
| Fourth interim dividend for 2018 | 8 Apr 2019 | 140,792,298 | 70,396,149 | 8.2417 | 6.1984 |
| First interim dividend for 2019 | 5 Jul 2019 | 45,113,398 | 22,556,699 | 8.3022 | 6.5516 |
| Second interim dividend for 2019 | 26 Sep 2019 | 109,720,334 | 54,860,167 | 7.2477 | 5.9748 |
| Third interim dividend for 2019 | 20 Nov 2019 | 46,245,981 | 23,122,991 | 7.7133 | 6.0444 |

### All-employee share plans

| | Number | Aggregate nominal value | Exercise price | |
|---|---|---|---|---|
| | | | from | to |
| | | $ | £ | £ |
| **HSBC Holdings savings-related share option plan** | | | | |
| HSBC ordinary shares issued in £ | 11,805,554 | 5,902,777 | 4.0472 | 5.9640 |
| Options over HSBC ordinary shares lapsed | 12,328,937 | 6,164,469 | | |
| Options over HSBC ordinary shares granted in response to approximately 23,220 applications from HSBC employees in the UK on 20 September 2019 | 32,129,659 | 16,064,830 | | |

| | HSBC Holdings ordinary shares issued | Aggregate nominal value | Market value per share | |
|---|---|---|---|---|
| | | | from | to |
| | | $ | £ | £ |
| **HSBC International Employee Share Purchase Plan** | 607,478 | 303,739 | 5.8090 | 6.7090 |

### HSBC share plans

| | HSBC Holdings ordinary shares issued | Aggregate nominal value | Market value per share | |
|---|---|---|---|---|
| | | | from | to |
| | | $ | £ | £ |
| Vesting of awards under the HSBC Share Plan 2011 | 59,175,000 | 29,587,500 | 5.8640 | 6.7150 |

## Authorities to allot and to purchase shares and pre-emption rights

At the AGM in 2019, shareholders renewed the general authority for the Directors to allot new shares up to 13,357,820,350 ordinary shares, 15,000,000 non-cumulative preference shares of £0.01 each, 15,000,000 non-cumulative preference shares of $0.01 each and 15,000,000 non-cumulative preference shares of €0.01 each. Shareholders also renewed the authority for the Directors to make market purchases of up to 2,003,673,053 ordinary shares. The Directors exercised this authority during the year and purchased 135,776,994 ordinary shares.

In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, no more than 4,007,346,106 ordinary shares in relation to any issue by HSBC Holdings or any member of the Group of contingent convertible securities that automatically convert into or are exchanged for ordinary shares in HSBC Holdings in prescribed circumstances. Further details about the issue of contingent convertible securities may be found in Note 31 on the financial statements.

Other than as disclosed in the tables above headed 'Share capital changes in 2019', the Directors did not allot any shares during 2019.

## Debt securities

In 2019, HSBC Holdings issued the equivalent of $10.97bn of debt securities in the public capital markets in a range of currencies and maturities in the form of senior securities to ensure it meets the current and proposed regulatory rules, including those relating to the availability of adequate total loss-absorbing capacity. For additional information on capital instruments and bail-inable debt, refer to Notes 28 and 31 on pages 295 and 305.

## Treasury shares

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange on 19 December 2005, HSBC Holdings will comply with the applicable law and regulation in the UK in relation to the holding of any shares in treasury and with the conditions of the waiver in connection with any shares it may hold in treasury. At 31 December 2019, pursuant to Chapter 6 of the UK Companies Act 2006, 325,273,407 ordinary shares were held in treasury. This was the maximum number of shares held at any time during 2019, representing 1.58% of the shares in issue as at 31 December 2019. The nominal value of shares held in treasury was $162,636,704.

## Notifiable interests in share capital

At 31 December 2019, HSBC Holdings had received the following notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure, Guidance and Transparency Rules:

- BlackRock, Inc. gave notice on 15 October 2019 that on 14 October 2019 it had the following: an indirect interest in HSBC Holdings ordinary shares of 1,038,312,888; qualifying financial instruments with 244,560,589 voting rights that may be acquired if the instruments are exercised or converted; and financial instruments with a similar economic effect to qualifying financial instruments, which refer to 5,848,899 voting rights, representing 5.12%, 1.20% and 0.02%, respectively, of the total voting rights at that date.

No further notifications had been received pursuant to the requirements of Rule 5 of the Disclosure, Guidance and Transparency Rules between 31 December 2019 and 12 February 2020.

At 31 December 2019, according to the register maintained by HSBC Holdings pursuant to section 336 of the Securities and

Futures Ordinance of Hong Kong:

- BlackRock, Inc. gave notice on 4 January 2020 that on 31 December 2019 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,414,136,299 shares and a short position of 14,651,147 shares, representing 6.96% and 0.07%, respectively, of the ordinary shares in issue at that date. Since 31 December 2019, BlackRock, Inc. gave notice on 9 January 2020 that on 6 January 2020 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,423,358,955 shares and a short position of 14,825,645 shares, representing 7.01% and 0.07%, respectively, of the ordinary shares in issue at that date.
- Ping An Asset Management Co., Ltd, gave notice on 2 November 2018 that on 1 November 2018 it had a long position of 1,418,925,452 in HSBC Holdings ordinary shares, representing 7.01% of the ordinary shares in issue at that date.

### Sufficiency of float

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at least 25% of the total issued share capital has been held by the public at all times during 2019 and up to the date of this report.

### Dealings in HSBC Holdings listed securities

The Group has policies and procedures that, except where permitted by statute and regulation, prohibit specified transactions in respect of its securities listed on The Stock Exchange of Hong Kong Limited. Except for dealings as intermediaries or as trustees by subsidiaries of HSBC Holdings, neither HSBC Holdings nor any of its subsidiaries has purchased, sold or redeemed any of its securities listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2019.

## Directors' interests

Pursuant to the requirements of the UK Listing Rules and according to the register of Directors' interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, the Directors of HSBC Holdings at 31 December 2019 had certain interests, all beneficial unless otherwise stated, in the shares or debentures of HSBC Holdings and its associated corporations. Save as stated in the following table, no further interests were held by Directors, and no Directors or their connected persons were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the year.

No Directors held any short position as defined in the Securities and Futures Ordinance of Hong Kong in the shares or debentures of HSBC Holdings and its associated corporations.

**Directors' interests – shares and debentures**

| | | | At 31 Dec 2019, or date of cessation, if earlier | | | | |
|---|---|---|---|---|---|---|---|
| | *Footnotes* | At 1 Jan 2019, or date of appointment, if later | Beneficial owner | Child under 18 or spouse | Jointly with another person | Trustee | Total interests |
| **HSBC Holdings ordinary shares** | | | | | | | |
| Kathleen Casey | 1 | 9,635 | 15,125 | – | – | – | 15,125 |
| Laura Cha | | 10,200 | 16,200 | – | – | – | 16,200 |
| Henri de Castries | | 18,064 | 19,251 | – | – | – | 19,251 |
| Lord Evans of Weardale (retired from the Board on 12 April 2019) | | 12,892 | 12,892 | – | – | – | 12,892 |
| John Flint (stepped down from the Board on 5 August 2019) | | 827,691 | 1,055,160 | – | 5,439 | – | 1,060,599 |
| Irene Lee | | 11,172 | 11,904 | – | – | – | 11,904 |
| José Antonio Meade Kuribreña (appointed to the Board on 1 March 2019) | | – | – | – | – | – | – |
| Heidi Miller | 1 | 4,420 | 15,700 | – | – | – | 15,700 |
| Marc Moses | 2 | 1,533,039 | 1,777,688 | – | – | – | 1,777,688 |
| David Nish | | 50,000 | – | 50,000 | – | – | 50,000 |
| Noel Quinn (appointed to the Board on 5 August 2019) | 2 | 380,095 | 441,925 | – | – | – | 441,925 |
| Ewen Stevenson (appointed to the Board on 1 January 2019) | 2 | 6,420 | 233,972 | – | – | – | 233,972 |
| Sir Jonathan Symonds | | 43,821 | 38,823 | 4,998 | | – | 43,821 |
| Jackson Tai | 1, 3 | 56,075 | 32,800 | 11,965 | 21,750 | – | 66,515 |
| Mark Tucker | | 288,381 | 307,352 | – | – | – | 307,352 |
| Pauline van der Meer Mohr | | 15,000 | 15,000 | – | – | – | 15,000 |

1 *Kathleen Casey has an interest in 3,025, Heidi Miller has an interest in 3,140 and Jackson Tai has an interest in 13,303 listed 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.*

2 *Executive Directors' other interests in HSBC Holdings ordinary shares arising from the HSBC Holdings savings-related share option plans and the HSBC Share Plan 2011 are set out in the Scheme interests in the Directors' remuneration report on page 184. At 31 December 2019, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in HSBC Holdings ordinary shares, including interests arising through employee share plans and the interests above were: Noel Quinn – 832,731; Marc Moses – 3,599,325; and Ewen Stevenson – 1,179,893. Each Director's total interests represents less than 0.02% of the shares in issue and 0.02% of the shares in issue excluding treasury shares.*

3 *Jackson Tai has a non-beneficial interest in 11,965 shares of which he is custodian.*

There have been no changes in the shares or debentures of the Directors from 31 December 2019 to the date of this report.

## Listing Rule 9.8.4

The Report of the Directors comprises sections of the *Annual Report and Accounts* incorporated by cross-reference, where applicable, under Listing Rule 9.8.4.



## Events after the balance sheet date

For details on events after the balance sheet date, see Note 36 on the financial statements.

## Change of control

The Group is not party to any significant agreements that take effect, alter or terminate following a change of control of the Group. The Group does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover bid.

## Branches

The Group provides a wide range of banking and financial services through branches and offices in the UK and overseas.

## Research and development activities

During the ordinary course of business the Group develops new products and services within the global businesses.

## Political donations

HSBC does not make any political donations or incur political expenditure within the ordinary meaning of those words. We have no intention of altering this policy. However, the definitions of political donations, political parties, political organisations and political expenditure used in the UK Companies Act 2006 (the 'Act') are very wide. As a result, they may cover routine activities that form part of the normal business activities of the Group and are an accepted part of engaging with stakeholders. To ensure that neither the Group nor any of its subsidiaries inadvertently breaches the Act, authority is sought from shareholders at the AGM to make political donations.

HSBC provides administrative support to two political action committees ('PACs') in the US funded by voluntary political contributions by eligible employees. We do not control the PACs, and all decisions regarding the amounts and recipients of contributions are directed by the respective steering committee of each PAC, which are comprised of eligible employees. The PACs recorded combined political donations of $119,600 during 2019 (2018: $179,200).

## Charitable donations

For details of charitable donations, see page 20.

## Internal control

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and types of risks the Group is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Handbook, procedures have been designed: for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the Group and accord with the Financial Reporting Council's guidance for Directors issued in 2014, on risk management, internal control and related financial and business reporting. The procedures have been in place throughout the year and up to 18 February 2020, the date of approval of this *Annual Report and Accounts 2019.*

The key risk management and internal control procedures include the following:

### Global principles

The Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times.

### Enterprise risk management framework

The enterprise risk management framework provides an effective and efficient approach to how we govern and oversee the organisation as well as how we monitor and mitigate risks to the delivery of our strategy. It applies to all categories of risk, covering core governance, standards and principles that bring together all of the Group's risk management practices into an integrated structure.

### Delegation of authority within limits set by the Board

Subject to certain matters reserved for the Board, the Group Chief Executive has been delegated authority limits and powers within which to manage the day-to-day affairs of the Group, including the right to sub-delegate those limits and powers. Each relevant Group Managing Director or executive Director has delegated authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable. Delegation of authority from the Board requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of Group companies. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a Group-wide basis.

### Risk identification and monitoring

Systems and procedures are in place to identify, assess, control and monitor the material risk types facing HSBC as set out in the enterprise-wide risk framework. The Group's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

### Changes in market conditions/practices

Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Group to heightened risk of loss or reputational damage. The Group employs a top and emerging risks framework, which contains an aggregate of all current and forward-looking risks and enables it to take action that either prevents them materialising or limits their impact.

### Responsibility for risk management

All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.

The Board delegated authority to the Group Audit Committee ('GAC') and it reviewed the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing, including the procedures for the protection of staff who raise concerns of detrimental treatment.

### Strategic plans

Strategic plans are prepared for global businesses, global functions and geographical regions within the framework of the Group's overall strategy. Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that the Group is prepared to take in executing its strategy, are prepared and adopted by all major Group operating companies and set out the key business initiatives and the likely financial effects of those initiatives.

The effectiveness of the Group's system of risk management and internal control is reviewed regularly by the Board, the Group Risk Committee ('GRC') and the GAC.

During 2019, the Group continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks with significant progress made enhancing the end-to-end risk and control assessment process.

The GRC and the GAC received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the Group's framework of controls.

## Internal control over financial reporting

HSBC is required to comply with section 404 of the US Sarbanes-Oxley Act of 2002 and assess its effectiveness of internal control over financial reporting at 31 December 2019. In 2014, the GAC endorsed the adoption of the COSO 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

The key risk management and internal control procedures over financial reporting include the following:

### Entity level controls

The primary mechanism through which comfort over risk management and internal control systems is achieved is through assessments of the effectiveness of entity level controls, and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. Entity level controls are internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, such as the Group's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees. The design and operational effectiveness of entity level controls are assessed annually as part of the assessment of the effectiveness of internal controls over financial reporting. If issues are significant to the Group, they are escalated to the GAC if concerning financial reporting matters and/or the GRC for all other risk types. HSBC is simplifying the suite of entity level controls relied on to meet the principles of the COSO framework, which is expected to complete in 2020.

### Process level transactional controls

Key process level controls that mitigate the risk of financial misstatement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues against which action plans are tracked through to remediation. Further details on HSBC's approach to risk management can be found on page 73. The GAC has continued to receive regular updates on HSBC's ongoing activities for improving the effective oversight of end-to-end business processes and management continued to identify opportunities for enhancing key controls, such as through the use of automation technologies.

### Financial reporting

The Group's financial reporting process is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period end. The submission of financial information from each reporting entity is supported by a certification by the responsible financial officer and analytical review procedures at reporting entity and Group levels.

### Disclosure Committee

Chaired by the Group Chief Financial Officer, the Disclosure Committee supports the discharge of the Group's obligations under relevant legislation and regulation including the UK and Hong Kong listing rules, the Market Abuse Regulation and US Securities and Exchange Commission rules. In so doing, the Disclosure Committee is empowered to determine whether a new event or circumstance should be disclosed, including the form and timing of such disclosure, and review all material disclosures made or to be made by the Group. The membership of the Disclosure Committee includes the Group Chief Financial Officer, Group Chief Risk Officer, Chief Legal Officer, Group Chief Accounting Officer, Global Head of Investor Relations, Group Chief of Staff, Group Company Secretary and Chief Governance Officer and Group Head of Finance. The Group's brokers, external auditors and its external legal counsel also attend as required. The integrity of disclosures is underpinned by structures and processes within the Global Finance and Global Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records. As required by the Sarbanes-Oxley Act, the Group Chief Executive and the Group Chief Financial Officer have certified that the Group's disclosure controls and procedures were effective as of the end of the period covered by this *Annual Report and Accounts 2019*.

The annual review of the effectiveness of the Group's system of risk management and internal control over financial reporting was conducted with reference to the COSO 2013 framework. Based on the assessment performed, the Directors concluded that for the year ended 31 December 2019, the Group's internal control over financial reporting was effective.

PwC has audited the effectiveness of HSBC's internal control over financial reporting and has given an unqualified opinion.

## Going concern

The Board, having made appropriate enquiries, is satisfied that the Group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements. Further information is provided on page 41.

# Employees

At 31 December 2019, HSBC had a total workforce equivalent to 235,000 full-time employees compared with 235,000 at the end of 2018 and 229,000 at the end of 2017. Our main centres of employment were the UK with approximately 40,000 employees, India with 40,000, Hong Kong with 31,000, mainland China with 28,000, Mexico with 16,000, the US with 10,000 and France with 8,000.

Our people span many cultures, communities and continents. By focusing on employee well-being, diversity, inclusion and engagement, as well as building our peoples' skills and capabilities for now and for the future, we aim to create an environment where our people can fulfil their potential. We use confidential surveys to assess progress and make changes. We want to have an open culture where our people feel connected, supported to speak up and where our leaders encourage feedback. Where we make organisational changes, we support our people throughout the change and in particular where there are job losses.

## Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies where we have them. It is our policy to maintain well-developed communications and consultation programmes with all employee representative bodies. There have been no material disruptions to our operations from labour disputes during the past five years.

We are committed to complying with the applicable employment laws and regulations in the jurisdictions in which we operate. HSBC's global employment practices and relations policy provides the framework and controls through which we seek to uphold that commitment.

## Diversity and inclusion

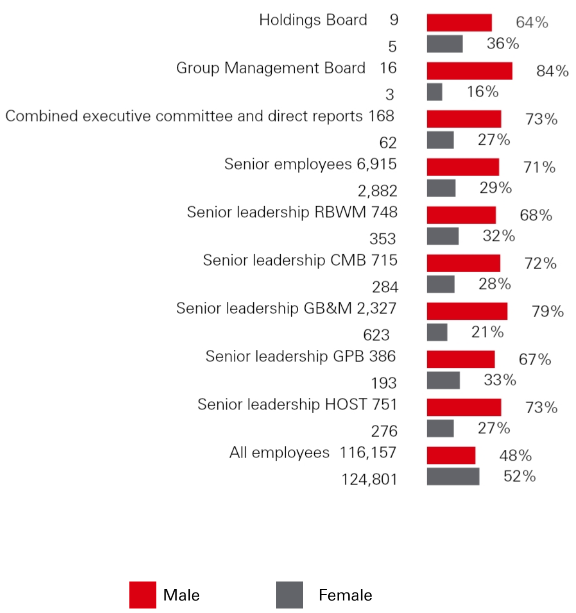
Our Group People Committee, which is made up of Group Management Board members, governs our diversity and inclusion agenda.

We are committed to a company-wide approach to diversity and inclusion. We want to embrace our people's diverse ideas, styles and perspectives to reflect and understand our customers, communities, suppliers and investors. Our actions are focused on ensuring our people are valued, respected and supported to fulfil their potential and thrive. We want them to bring the best of themselves to work to help deliver more sustainable outcomes for all of our stakeholders.

Our Global Principles outline that our people must treat each other with dignity and respect, creating an inclusive culture to support equal opportunities. We do not tolerate discrimination, bullying, harassment and victimisation on any grounds as policy.

*More information about our diversity and inclusion activity and our UK Gender Pay Gap Report is available at www.hsbc.com/our-approach.*

## Gender diversity statistics[1, 2]




1 *Combined executive committee and direct reports includes HSBC executive Directors, Group Managing Directors, Group Company Secretary and Chief Governance Officer and their direct reports (excluding administrative staff).*

2 *Senior leadership refers to employees performing roles classified as 0, 1, 2 and 3 in our global career band structure.*

## Employment of people with a disability

We believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and, if necessary, appropriate training and reasonable equipment and facilities are provided.

## Employee development

We understand that to have a skilled and capable workforce for today and the future, we must invest in our people at all stages of their careers. We measure our success through our retention, engagement scores, internal mobility and from external awards.

We provide training through HSBC University, our online learning portal and global network of training centres, which we launched in 2017. We target a 97% completion rate for formal training on our values, strategy and approach to risk management. This helps keep our people aware of the risks we face so they can make better decisions to grow our business in a safe way.

Our training has a strong foundation in good conduct, with topics including managing non-financial risk, data privacy, cybersecurity, anti-money laundering, sanctions, anti-bribery and corruption, insider risk, competition law, raising concerns and well-being.

We also have programmes to develop and advance our diverse workforce, including programmes for ethnic minority employees, people with disabilities, women, veterans and LGBT+ colleagues in some regions.

**Building for the future**

Through HSBC University, we provide training to support our people to develop technical and role-based skills, as well as personal skills. We put a strong emphasis on leadership skills to foster a culture of curiosity, innovation, collaboration and performance.

We have introduced new programmes to develop digital skills and understanding of sustainable finance and environmental sustainability. We created online training to improve personal skills, such as novel and adaptive thinking, design mindset, social intelligence, curiosity and creativity. We also introduced a range of self-directed resources and workshops to improve team cohesion and performance.

**Leadership development**

Over 16,000 of our people participated in HSBC University's management and leadership programmes. These included an online course for new managers or those returning to management after a break. We also launched a new risk management curriculum and an executive development curriculum, which are designed to support our most senior leaders with their approach to protect and grow the organisation.

We engage proactively in succession planning and understand the importance of ensuring we have a diverse talent pipeline for senior roles. In 2019, 67% of our most critical roles were filled by internal talent, with 33% of those placements being female. We realise the importance of accelerating the progress of our women to strengthen the leadership pipeline. We have a number of programmes to equip talented female staff with the skills and networks necessary to make the leap to management.

**Nurturing talent**

We promote a continuous feedback culture and so encourage all our people to have regular performance conversations with their line managers throughout the year, in addition to their formal annual discussions. We also encourage them to use our online career planning tool to help them with their thinking on future roles and the capabilities they require.

Managers are encouraged to have open dialogue with our people through feedback sessions. In addition to access to HSBC University, all employees have access to other experiences, such as volunteering and sustainability opportunities, participation in our employee resource groups, mentoring and sponsorship programmes.

In 2019, we launched a portal that provides access to career development resources and tools for all our people. Its features include guidance to help our people have conversations about their careers with their line managers by focusing on strengths and aspirations.

We also created a new and more inclusive approach to identify potential future leaders by enabling our people to self-elect into an assessment and development process, which examines learning agility, leadership ability and aspiration.

**Internship, graduate and international manager programme**

We recognise that to be prepared for the future, we need to build talent from the earliest stages of careers. Our global intern and graduate programme in 2019 had more than 80,000 applicants, from which we recruited 860 graduates, of which 45% were female. Once hired, our graduates go through several rotations during a two-year period before being placed in their destination roles. Some of our highest-performing graduates continue into our international manager programme, a fast-track career path for future leaders of our business. We currently have 271 individuals across 46 countries and territories on the scheme.

## Health and safety

We are committed to providing a healthy and safe working environment for our employees, contractors, customers and visitors on our premises, and where impacted by our operations.

We aim to be compliant with all applicable health and safety legal requirements, and to ensure that best practice health and safety management standards are implemented and maintained across the Group.

Everyone at HSBC has a responsibility for helping to create a healthy and safe working environment. Employees are expected to take ownership of their safety, and are encouraged and empowered to report any concerns.

Chief operating officers have overall responsibility for ensuring that the correct policies, procedures and safeguards are put into practice. This includes making sure that everyone in HSBC has access to appropriate information, instruction, training and supervision.

Putting our commitment into practice, we delivered a range of programmes in 2019 to help us understand and manage effectively the risks we face and improve the buildings in which we operate:

- We continued to deliver improvements in health and safety culture, through more than 2,000 hours of education and awareness programmes targeted at our areas of highest risk, which are construction and facilities management. This has helped to deliver continued reductions in the numbers of injuries, with HSBC's injury rate for facilities management approximately one-tenth of the industry rate, according to the US Occupational Safety and Health Administration.
- We developed and implemented an improved health and safety training and awareness programme for all employees globally, ensuring roles and responsibilities were clear and understood. The programme, which included a new section for branch managers and staff, was completed by over 250,000 of our employees.
- We implemented improved systems and processes for hazard identification and remediation. We also updated our suite of management information dashboards to continually improve our awareness and management of our key risks.
- An independent subject matter expert assessed our health and safety management system against the new international standard ISO 45001. The expert confirmed the robustness of our policies, procedures and processes, while identifying areas for continual improvement.
- Our global safety management system was subjected to an extensive third line of defence review and resulted in zero high risk items being identified.
- We continue to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, building the awareness and capability to act and behave in the safest ways.

### Employee health and safety

| | Footnotes | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Number of workplace fatalities | 1 | **1** | 1 | 2 |
| Number of major injuries to employees | 2 | **29** | 27 | 33 |
| All injury rate per 100,000 employees | | **189** | 189 | 209 |

1 *2019: Contractor fatality (cleaning accident).*
2 *Fractures, dislocation, concussion and loss of consciousness.*

## Remuneration

HSBC's pay and performance strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders.

The quality and commitment of our employees 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 a long-term career with the Group.

*Further information on the Group's approach to remuneration is given on page 204.*

## Employee share plans

Share options and discretionary awards of shares granted under HSBC share plans align the interests of employees with the creation of shareholder value. The following table sets out the particulars of outstanding options, including those held by employees working under employment contracts that are regarded as 'continuous contracts' for the purposes of the Hong Kong Employment Ordinance. The options were granted at nil consideration. No options have been granted to substantial shareholders and suppliers of goods or services, nor in excess of the individual limit for each share plan. No options were cancelled by HSBC during the year.

A summary for each plan of the total number of the options that were granted, exercised or lapsed during 2019 is shown in the following table. Further details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are available on our website at www.hsbc.com/our-approach/corporate-governance/remuneration and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, or can be obtained upon request from the Group Company Secretary and Chief Governance Officer, 8 Canada Square, London E14 5HQ.

*Particulars of options held by Directors of HSBC Holdings are set out on page 199.*

*Note 5 on the financial statements gives details of share-based payments, including discretionary awards of shares granted under HSBC share plans.*

### All-employee share plans

HSBC operates all-employee share option plans under which options are granted over HSBC ordinary shares. Subject to leaver provisions, options are normally exercisable after three or five years. During 2019, options were granted by reference to the average market value of HSBC Holdings ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%. The mid-market closing price for HSBC Holdings ordinary shares quoted on the London Stock Exchange, which, as derived from the Daily Official List on 19 September 2019, the day before the options were granted, was £6.1600.

The UK HSBC Holdings Savings-Related Share Option Plan will expire on 23 May 2025. A resolution will be proposed at the 2020 AGM to extend the plan to 24 April 2030, unless the Directors resolve to terminate the plans at an earlier date.

The HSBC International Employee Share Purchase Plan was introduced in 2013 and now includes employees based in 27 jurisdictions, although no options are granted under this plan.

### HSBC Holdings Share Option Plans

| Dates of awards | | Exercise price | | Usually exercisable | | | HSBC Holdings ordinary shares | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| from | to | from | to | from | to | Footnotes | At 1 Jan 2019 | Granted during year | Exercised during year | Lapsed during year | At 31 Dec 2019 |
| Savings-Related Share Option Plan | | | | | | 1 | | | | | |
| | | (£) | (£) | | | | | | | | |
| 20 Sep 2013 | 20 Sep 2019 | 4.0472 | 5.9640 | 1 Nov 2018 | 30 Apr 2025 | | **57,065,513** | **32,129,659** | **11,805,554** | **12,328,937** | **65,060,681** |

1 *The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.0088.*

## Statement of compliance

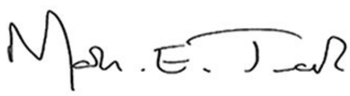
The statement of corporate governance practices set out on pages 156 to 219 and the information referred to therein constitutes the 'Corporate governance report' of HSBC Holdings. The websites referred to do not form part of this report.

**Relevant corporate governance codes, role profiles and policies**

| | |
|---|---|
| UK Corporate Governance Code | www.frc.org.uk |
| Hong Kong Corporate Governance Code (set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) | www.hkex.com.hk |
| Descriptions of the roles and responsibilities of the:<br>– Group Chairman<br>– Group Chief Executive<br>– Deputy Group Chairman and Senior Independent Director<br>– Board | www.hsbc.com/our-approach/corporate-governance/board-responsibilities |
| Board and senior management | www.hsbc.com/who-we-are/leadership |
| Roles and responsibilities of the Board's committees | www.hsbc.com/our-approach/corporate-governance/board-committees |
| Board's policies on:<br>– diversity and inclusion<br>– shareholder communication<br>– human rights<br>– remuneration practices and governance | www.hsbc.com/our-approach/corporate-governance/board-responsibilities |
| Global Internal Audit Charter | www.hsbc.com/our-approach/corporate-governance/corporate-governance-codes/internal-control |

HSBC is subject to corporate governance requirements in both the UK and Hong Kong. During 2019, HSBC complied with the provisions and requirements of both the UK and Hong Kong Corporate Governance Codes.

Under the Hong Kong Code, the audit committee should be responsible for the oversight of all risk management and internal control systems. HSBC's Group Risk Committee is responsible for oversight of internal control, other than internal control over financial reporting, and risk management systems. This is permitted under the UK Corporate Governance Code. HSBC Holdings has codified obligations for transactions in Group securities in accordance with the requirements of the Market Abuse Regulation and the rules governing the listing of securities on HKEx, save that the HKEx has granted waivers from strict compliance with the rules that take into account accepted practices in the UK, particularly in respect of employee share plans. During the year, all Directors were reminded of their obligations in respect of transacting in HSBC Group securities and following specific enquiry all Directors have confirmed that they have complied with their obligations.



On behalf of the Board

**Mark E Tucker**

Group Chairman

HSBC Holdings plc

Registered number 617987

18 February 2020

## Directors' responsibility statement

The Directors are responsible for preparing the *Annual Report and Accounts 2019,* the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the parent company ('Company') and Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ('IASB'). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group, and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and the Group enabling them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the *Annual Report and Accounts 2019* as they appear on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the *Annual Report and Accounts 2019*, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the 'Report of the Directors: Corporate governance report' on pages 158 to 161 of the *Annual Report and Accounts 2019*, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and
- the management report represented by the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Group Audit Committee has responsibility, delegated to it from the Board, for overseeing all matters relating to external financial reporting. The Group Audit Committee report on page 173 sets out how the Group Audit Committee discharges its responsibilities.

## Disclosure of information to auditors

In accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement, in the case of each Director in office as at the date the Report of the Directors is approved, that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

**Mark E Tucker**

Group Chairman

18 February 2020

# Report of the independent auditors to the members of HSBC Holdings plc

## Opinion

In our opinion, HSBC Holdings plc's ('HSBC') Group financial statements[1] and parent company financial statements:

- give a true and fair view of the state of the Group's and parent company's affairs at 31 December 2019 and of the Group's and parent company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006, and as regards the Group financial statements, Article 4 of the IAS Regulation.

## Basis for opinion

In expressing this opinion, we believe that the audit evidence we have obtained is sufficient and appropriate. Our work has been undertaken, and our opinion expressed, in accordance with applicable law and the International Standards on Auditing (UK) as issued by the Financial Reporting Council ('FRC') of the United Kingdom. Our responsibilities and those of the directors are explained later in this report.

### Independence

We can confirm that PwC remained independent of the Group in accordance with the ethical requirements that are relevant to the audit of listed public interest entities in the UK, which includes the FRC's Ethical Standard. PwC has also fulfilled its other ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company. Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the Group or the parent company in the period from 1 January 2019 to 31 December 2019.

## Our audit approach

### Overview

This was the first year that it has been my responsibility to form this opinion on behalf of PricewaterhouseCoopers LLP ('PwC'), who you first appointed on 31 March 2015 in relation to that year's audit. In addition to forming this opinion, in this report we have also provided information on how we approached the audit, how it changed from the previous year and details of the significant discussions that we had with the Group Audit Committee ('GAC').

We approached our audit by considering what would be considered to be material to the users of the financial statements. The scope of our audit and the nature, timing and extent of audit procedures performed were then determined based on our risk assessment taking into account changes from the prior year, the financial significance of subsidiaries and other qualitative factors. Finally we executed the planned approach and concluded based on the results of our testing ensuring that sufficient audit evidence had been obtained to support our opinion. We discussed our approach and the results of our audit with the GAC.

### Materiality

In order to perform our work, we had regard to the concept of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures.

The table provides you with details of how we determined materiality for both the Group and the parent company.

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Overall materiality** | $1bn (2018: $1bn). | $900m (2018: $900m). |
| **How we determined it** | 5% of adjusted profit before tax | 0.75% of total assets. This would result in an overall materiality of $1.9bn and is therefore reduced below the materiality for the Group. |
| **Rationale for benchmark applied** | We believe a standard benchmark of 5% of adjusted profit before tax is an appropriate quantitative indicator of materiality, although certain items could also be material for qualitative reasons. This benchmark is standard for listed entities and consistent with the wider industry.<br>We selected adjusted profit because, as discussed on page 47, management believes it best reflects the performance of HSBC and how the Group is run. We excluded the adjustments made by management on page 263 for certain customer redress programmes and fair value movements of financial instruments, as in our opinion they are recurring items that form part of ongoing business performance. | A benchmark of total assets has been used as the parent company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant. |

1 *We have audited HSBC Holdings plc's financial statements which comprise the consolidated and parent company balance sheets as at 31 December 2019, the consolidated and parent company income statements and the consolidated and parent company statements of comprehensive income for the year then ended, the consolidated and parent company statements of cash flows for the year then ended, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information. Certain required disclosures have been presented elsewhere in the* Annual Report and Accounts 2019*, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as '(Audited)'. The relevant disclosures are included in the Risk sections on pages 73 to 151; the Capital sections on pages 152 to 153; and the Directors' remuneration report disclosures on pages 184 to 217.*

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is not a guarantee that an audit will always detect a material misstatement when it exists. It is important to recognise that identifying a material misstatement arising from fraud is more difficult than identifying one arising solely from error because fraud generally involves deliberate concealment, collusion or misrepresentation.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements as a whole. The misstatements identified during the audit were carefully considered to assess if they were individually or in aggregate material. We agreed with the GAC that we would report to them misstatements identified during our audit above $50m (2018: $50m), as well as misstatements below that amounts that, in our view, warranted reporting for qualitative reasons. We reported items for the Group and parent company to the GAC, impacting either the absolute level of profit and equity or misclassifications within the financial statements and notes. The Directors concluded that all items which remained unadjusted were not material to the financial statements. We agreed with their conclusion. All other significant adjustments that we identified in our audit were adjusted by the Group prior to the issuance of the financial statements.

## Risk assessment, scoping and audit approach

When planning the Group audit, we considered if multiple errors might exist which, when aggregated, could exceed our overall materiality of $1bn. In order to reduce the risk of multiple errors that could aggregate to this amount, we used a lower level of materiality of $750m, known as performance materiality, to identify the individual balances, classes of transactions and disclosures that were subject to audit. The scope of our audit and the nature, timing and extent of testing also considered other qualitative factors, such as balances that have a level of uncertainty or judgement associated with them. Our audit approach remained broadly unchanged, and reflects how HSBC is organised. It incorporated four important aspects.

*(1) Audit approach to HSBC's global businesses*

We designed audit approaches for the products and services that substantially make up HSBC's global businesses, such as lending, deposits and derivatives. These global business approaches were designed by partners and team members who are specialists in the relevant businesses. These approaches were provided to the audit partners and teams around the world that contributed to the Group audit.

*(2) Audit work for Significant Subsidiaries*

Through our risk assessment and scoping we identified certain entities (collectively the Significant Subsidiaries) for which we obtained audit opinions. We obtained full scope audit opinions for Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, HSBC Bank UK plc, HSBC North America Holdings Inc, HSBC Bank Canada and HSBC Mexico S.A. We obtained audit opinions over specific balances for HSBC Global Services (UK) Limited, HSBC Global Services (HK) Limited and HSBC Group Management Services Limited and HSBC Bank Middle East Limited - UAE Operations. The audits for HSBC Bank plc, HSBC Bank UK plc, HSBC Global Services (UK) Limited and HSBC Group Management Services Limited were performed by other PwC teams in the UK. All other audits were performed by other PwC network firms.

We asked the partners and teams reporting to us on the Significant Subsidiaries to work to assigned materiality levels reflecting the size of the operations they audited. The performance materiality levels ranged from $50m to $675m. Certain Significant Subsidiaries were audited to a local statutory audit materiality that was less than our overall Group materiality.

We were in active dialogue throughout the year with the partners and teams responsible for the audits of the Significant Subsidiaries. This included consideration of how they planned and performed their work, including their use of the global business approaches. We visited these Significant Subsidiaries and attended Audit Committee meetings for some of them. We also attended meetings with management in each of these Significant Subsidiaries at the year-end.

The audit of The Hongkong and Shanghai Banking Corporation in Hong Kong relied upon work performed by PwC network firms in Malaysia, China and India. Similarly, the audit of HSBC Bank plc in the UK relied upon work performed by PwC network firms in France and Germany. We considered how the audit partners and teams for the Significant Subsidiaries instructed and provided oversight to the work performed in these locations. Collectively, PwC network firms completed audit procedures covering 85% of assets and 82% of total operating income.

*(3) Audit work performed at Operations Centres*

A significant amount of the operational processes and controls which are critical to financial reporting are undertaken in operations centres run by HSBC Operations Services and Technology ('HOST') across 11 different locations. Financial reporting processes are performed in HSBC's four Finance Operations Centres. We coordinated and provided oversight on the audit work performed by PwC teams in the UK, Poland, China, Sri Lanka, Malaysia, India and the Philippines. This work was relied upon by us, as well as the PwC teams auditing the Significant Subsidiaries.

*(4) Audit procedures undertaken at a Group level and on the parent company*

We ensured that appropriate further work was undertaken for the HSBC Group and parent company. This work included auditing, for example, the impairment assessment of goodwill, the consolidation of the Group's results, the preparation of the financial statements, certain disclosures within the Directors' remuneration report, litigation provisions and exposures, taxation, and management's entity level and oversight controls relevant to financial reporting.

Subsidiaries' balances that were not identified as part of a Significant Subsidiary were subject to procedures which mitigated the risk of material misstatement, including testing of entity level controls, information technology general controls, testing at the Operations Centre, analytical review procedures and understanding and assessing the outcome of local external audits.

## Our audit in 2019

In April 2019, we held a meeting in Shanghai of the partners and senior staff from the Group audit team and the PwC teams who undertake audits of the Significant Subsidiaries and the Operations Centres. The meeting focused primarily on: reassessing our approach to auditing HSBC's businesses; changes at HSBC and changes in our PwC teams; and how we continued to innovate and improve the quality of our audit. We also discussed and agreed our significant audit risks.

Other matters relevant to our audit in 2019 included:

*(1) Rotational approach to scoping*

We worked with the Significant Subsidiaries in 2019 to develop an approach for rotating certain smaller locations in and out of scope over a number of reporting periods. These locations, which are subject to local external audits, are individually relatively small compared to the Group. Notwithstanding their size, the rotational approach is designed to ensure that over time these locations are subject to audit work as part of the Group audit. Australia was removed from the scope for 2019 and Malaysia was included. HSBC Global Services (HK) Limited was also included in the scope of work for 2019, due to the increase in its contribution to the Group's financial performance.

*(2) The impact of geopolitical events on the macro environment*

Current geopolitical events were considered to determine if changes in our approach were required, for example; the impacts of the UK's departure from the EU, China-US trade arrangements and the social unrest in Hong Kong. We specifically considered how these matters were reflected in expected credit losses and more broadly on the valuation of assets and liabilities. IFRS requires financial statements to carry certain assets at fair value, as discussed in Note 1. Where this is the case, it is the value on 31 December 2019, and therefore the financial statements cannot reflect changes which will occur in the future as a result of these or other events.

*(3) Adding unpredictability to our audit procedures*

As required by auditing standards, we undertook procedures which were deliberately unexpected and could not have reasonably been predicted by HSBC management. As an example, we performed incremental testing to assess the appropriateness of costs incurred that were charged against the restructuring provisions recognised by the Group in 2019.

*(4) Using the work of others*

We continued to make use of evidence provided by others. This included testing of controls performed by Group Internal Audit and management themselves in some low risk areas. We used the work of PwC experts, for example, valuation experts for our work around the assumptions used in the impairment assessment over goodwill and actuaries on the estimates used in determining pension liabilities. An increasing number of controls are operated on behalf of HSBC by third parties. We rely on audit evidence that is scoped and provided by other auditors that are engaged by those third parties. For example, we obtain a report evidencing the testing of external systems and controls supporting HSBC's payroll and HR processes.

*(5) Innovation in the audit*

We are committed to driving innovation and the use of technology in the audit. In 2019 we have focused on innovation led by members of the audit team. We have trained a number of team members on the use of tools available and allowed them to develop technology solutions for use in the audit.

## Responsibilities of the Directors and auditors

The Directors have, on page 219 acknowledged their responsibility to prepare the financial statements to give a true and fair view; to have controls enabling them to be satisfied that the financial statements are free from material misstatement, whether due to fraud or error; and, as described below to assess whether the Group and parent company can continue as a going concern.

The audit opinion does not provide assurance over any particular number or disclosure, but over the financial statements taken as a whole. The scope of an audit is sometimes not fully understood. It is important that you understand the scope in order to understand the assurance that our opinion provides. A further description of the scope of an audit is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities. It is also critical that you understand the inherent limitations of the audit which are disclosed in this description, including the possibility that an approach based upon sampling and other audit techniques may not identify all issues.

While our audit procedures include obtaining representations that the Group is in compliance with all applicable laws and regulations, an audit does not involve testing HSBC's compliance with each of the very large number of laws and regulations with which the Group, as a financial services business, must comply. We apply judgement in selecting the specific laws and regulations as the focus of our audit procedures. These procedures included regularly meeting with some of the Group's regulators, reviewing correspondence with both regulators and legal advisors and meeting with the Group General Counsel.

Annually the Prudential Regulation Authority provides questions covering aspects of our audit where they would like further information to assist them in their regulatory responsibilities. These questions did not highlight any areas that we had not already considered in our audit.

### Matters reported to the GAC

We escalated those matters which we believe are important to the GAC for their consideration. We attended each of the 10 GAC meetings held during the year. We also met with members of the GAC on a number of other occasions outside of GAC meetings. During these various interactions we reported and discussed our observations on a variety of accounting matters, particularly those involving management judgement, and our views on controls over financial reporting. We can confirm that this report is consistent with the reporting made to the GAC.

During the April GAC meeting, the audit plan was presented. This was supplemented by subsequent update where we refreshed our risk assessment. As a result of changes within HSBC and more broadly in the macroeconomic and geopolitical environment, we increased our assessment of the risk in relation to impairment of goodwill, pension liabilities and impairment of investment in subsidiaries. All statutory audits require auditors to address the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud. Whilst management override of controls remains a significant audit risk, our assessment is that the risk has reduced for 2019 due to HSBC publicly stating they will not achieve a number of the financial targets established in their strategy update from June 2018.

We reported to the GAC all of the matters that presented significant risks of material misstatement in the financial statements. They include those that had the greatest effect on the overall audit strategy, and the allocation of resources and effort. These matters are discussed below together with an explanation of how the audit was tailored to address these specific areas. This is not a list of all audit risks and we do not form an opinion on any one area, but on the financial statements overall. The list reflects the same key audit matters from the prior year, with the addition of impairment of goodwill, pension liabilities and impairment of investment in subsidiaries, and the removal of management override of controls.

## IT Access Management

**Consideration of key audit matter**

Our audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems.

In previous years, we identified and reported that controls over access to applications, operating systems and data in the financial reporting process required improvements. Access management controls are critical to ensure that changes to applications and underlying data are made in an appropriate manner. Appropriate access and change controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. Management implemented remediation activities that have contributed to progress being made in reducing the risk over access management in the financial reporting process. The significance of IT controls to our audit and the status of the remediation was discussed at GAC meetings during the year.

**Procedures performed to support our discussions and conclusions**

Access rights were tested over applications, operating systems and databases relied upon for financial reporting. Specifically, the audit tested that:

- New access requests for joiners were properly reviewed and authorised.
- User access rights were removed on a timely basis when an individual left or moved role.
- Access rights to applications, operating systems and databases were periodically monitored for appropriateness.
- Highly privileged access was restricted to appropriate personnel.

Other areas that were independently assessed included password policies, security configurations, controls over changes to applications, operating systems and databases.

Where control deficiencies were identified, a range of other procedures were performed:

- Where access outside of policy was identified, we understood the nature of the access, and, where required, obtained additional evidence on whether that access had been exploited.
- Testing of controls to manage the monitoring of business access, in particular, automation implemented to identify and resolve cases where users are found to have access which represent a possible toxic combination of privileges.
- Substantive testing relating to automated controls, specific year-end reconciliations (i.e. custodian, bank account and suspense account reconciliations) and confirmations with external counterparties.

**Relevant references in the *Annual Report and Accounts 2019***

Effectiveness of internal controls, page 214.

## Impairment of loans and advances

**Consideration of key audit matter**

This is the second year that expected credit losses ('ECL') have been reported under IFRS 9. The underlying processes and controls have matured since 2018. HSBC has updated certain ECL models during the year.

The global credit environment has remained benign for an extended period of time, in part due to the globally low interest rates. However, there are a growing number of regional and country specific risks.

We continued to critically assess the more judgemental decisions made by management, in particular the severity and likelihood of alternative downside economic scenarios that form part of the forward economic guidance and their impact on ECL. We also considered; the determination of customer credit ratings and probabilities of default, and the impact they had on the determination of significant increases in credit risk; the appropriateness of post model adjustments made to reflect model and data limitations; and the estimation of specific impairments for wholesale exposures that had defaulted or were on the watch or worry list.

We discussed a number of areas with the GAC, including: changes made to models and the inputs into them; geopolitical risks, such as the social unrest in Hong Kong, the US-China trade tensions and the UK's departure from the EU; the migration of customer risk ratings; and impairments of significant wholesale exposures.

**Procedures performed to support our discussions and conclusions**

- Performed risk based substantive testing of models that were updated during the year, including independently rebuilding the modelling for certain assumptions.
- Independently reviewed the updates to the scripts used in the underlying tool to calculate ECL to validate that they reflected approved updates to models, parameters and inputs.
- Tested the controls over the inputs of critical data into source system and the flow and transformation of data between source systems to the impairment calculation engine. Substantive testing was performed over the critical data used in the year end ECL calculation.
- Tested the review and challenge of multiple economic scenarios by an expert panel and internal governance committee and assessed the reasonableness and likelihood of these scenarios using our economic experts. Relevant economic, political and other events were considered in assessing the reasonableness of alternative downside scenarios. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios on the ECL were considered.
- Observed management's review and challenge forums to assess the ECL output and approval of post model adjustments.
- Tested the approval of the key inputs, assumptions and discounted cash flows that support the impairments of significant wholesale exposures, and substantively tested a sample of significant wholesale exposures.

**Relevant references in the *Annual Report and Accounts 2019***

Credit risk disclosures, pages 84.

GAC Report, page 177.

Note 1.2d: Financial instruments measured at amortised cost, page 244.

## Goodwill impairment

**Consideration of key audit matter**

The macroeconomic and geopolitical environment has become more challenging, impacting both 2019 and the outlook into 2020. Furthermore, a business update has been announced that will impact the future performance of certain businesses across the Group. These matters are considered a potential indicator of impairment for goodwill.

An impairment test was performed by HSBC using a value in use ('VIU') model that estimates the value of each cash generating unit ('CGU'). The VIU was less than the carrying value for certain CGUs, being Global Banking and Markets, Europe - Commercial Banking, Latin America - Commercial Banking, Middle East and North Africa - Commercial Banking and North America - Global Private Banking. This resulted in an impairment being recognised of $7.3bn, with $5.6bn of goodwill remaining on the balance sheet at 31 December 2019 for other CGUs.

The value of the VIU is based on the requirements of the relevant accounting standard and assumptions about future cash flows which are estimated using the Group's Annual Operating Plan ('AOP'), long term growth rates and discount rates. These assumptions, which are judgemental, are derived from a combination of management estimates, market data and other information provided by external parties.

We discussed the appropriateness of these assumptions with the GAC, particularly those for which variations had the most significant impact on the carrying value of the VIU. We focused on the assumptions related to the revenue growth rates and cost reduction targets in the AOP, and the long term growth rates and discount rates for specific businesses in certain locations. Our discussions and focus on assumptions was driven by consideration of the achievability of management's AOP and the prospects for different types of banking business in the future. For these assumptions we considered reasonably possible alternatives.

**Procedures performed to support our discussions and conclusions**

- We assessed the appropriateness of the methodology, including the estimation of VIUs and the CGUs to which they relate.
- A reasonable range for the discount rate used within the model was independently calculated with the assistance of our valuation experts, and compared to the rates used by management.
- The determination of assumptions within the model including the long-term growth rates, discount rates and Annual Operating Plan were challenged. Where available, external information was obtained and used to audit management's assumptions.
- We assessed whether the cash flows included in the model were in accordance with the relevant accounting standard.
- We performed sensitivity analysis on certain key assumptions used.
- The controls in place over the model, and its mathematical accuracy, were tested.
- We read and assessed the disclosures made in the *Annual Report and Accounts 2019* in relation to goodwill.

**Relevant references in the *Annual Report and Accounts 2019***

GAC Report, page 177.

Note 1.2(a): Critical accounting estimates and judgements, page 242.

Note 21: Goodwill and intangible assets, page 289.

## Investment in associate – Bank of Communications Company, Limited ('BoCom')

**Consideration of key audit matter**

At 31 December 2019, the market value of the Group's investment in BoCom was $9bn lower than the carrying value. This is considered an indicator of potential impairment. An impairment test was performed by HSBC using a value in use ('VIU') model to estimate the investment's value assuming it continues to be held in perpetuity rather than sold. The VIU was $2.5bn in excess of the carrying value. On this basis no impairment was recorded and the share of BoCom's profits has been recognised in the consolidated income statement.

The VIU model is based on the requirements of the relevant accounting standard and is dependent on many assumptions, both short-term and long-term in nature. These assumptions, which are judgemental, are derived from a combination of management estimates, analysts' forecasts and market data.

We discussed the appropriateness of these assumptions with the GAC, particularly those for which variations had the most significant impact on the carrying value of the VIU. We focused on the assumptions relating to forecast cash flows and the impact of meeting regulatory capital requirements. We also discussed with the GAC the effective tax rate and loan impairment rate assumptions and considered reasonably possible alternatives. Our discussions and focus on assumptions was driven by consideration of the current levels of uncertainty due to the impact of China-US trade tensions, and the overall outlook for the Chinese banking market, and the broader Chinese economy.

**Procedures performed to support our discussions and conclusions**

- We assessed the appropriateness of the methodology used to estimate the VIU.
- A reasonable range for the discount rate used within the model was independently calculated with the assistance of our valuation experts and compared to the discount rate used by management.
- We challenged the basis for determining assumptions and the inputs used. Where available, we obtained corroborating information for inputs into assumptions from external market information, third-party sources, including analyst reports, and historical publicly available BoCom information.
- We assessed whether the approach to estimating the VIU was in accordance with the relevant accounting standard.
- We performed sensitivity analysis on key assumptions used.,
- The controls in place over the model, and its mathematical accuracy, were tested.
- We observed meetings in September and November 2019 between management and senior BoCom executive management, held specifically to identify facts and circumstances impacting assumptions relevant to the determination of the VIU.
- We read and assessed the disclosures made in the *Annual Report and Accounts 2019* in relation to BoCom.
- Representations were obtained from HSBC that assumptions used were consistent with information currently available to them, both as a shareholder and to which HSBC are entitled through their participation on BoCom's Board of Directors.

**Relevant references in the *Annual Report and Accounts 2019***

GAC Report, page 177.

Note 1.2(a): Critical accounting estimates and judgements, page 243.

Note 18 Interests in associates and joint ventures, page 283.

## Defined benefit pensions obligations

| Consideration of key audit matter |
|---|
| HSBC has $40.6bn of pension liabilities from defined benefit schemes. The valuation of these pension liabilities is dependent on a number of assumptions, including discount rate, inflation rates and mortality rates. Relatively small changes in these assumptions can have a material impact on the valuation of the pension obligations.<br>We focused our testing and discussions with the GAC on the largest schemes in the UK and the US, which made up 83% of the overall defined benefit pension obligations at 31 December 2019. We discussed the key assumptions, including results of the work performed by our actuarial experts and how the estimate compare to our independently expected range. |
| **Procedures performed to support our discussions and conclusions** |
| • We tested the controls for determining the actuarial estimates.<br>• We engaged our actuarial experts to understand the judgements made by management and their actuarial expert in determining the key financial and demographic estimates used in estimating the pension liabilities.<br>• We assessed the reasonableness of the estimates using independently developed assumptions and external market data.<br>• We assessed management's approach to determining discount rates and inflation estimates and compared these to market practice.<br>• We read and assessed the disclosures made in the Annual Report and Accounts 2019 in relation to pensions. |
| **Relevant references in the *Annual Report and Accounts 2019*** |
| GAC Report page 177.<br>Note 5, page 253. |

## Impairment of investment in subsidiaries (Parent Company only)

| Consideration of key audit matter |
|---|
| The net asset value of HSBC Overseas Holdings (UK) Limited was below the carrying amount as at 31 December 2019, which was considered an indicator for impairment. This is considered an indicator of potential impairment.<br>An impairment test was performed to calculate the recoverable amount of HSBC Overseas Holdings (UK) Limited. The recoverable amount is based on the requirements of the relevant accounting standard and is dependent on many assumptions, including future cash flows, long term growth rates, discount rates and fair values. These assumptions, which are judgemental, are derived from a combination of management estimates, market data and other information provided by external parties. The recoverable amount was less than the carrying value which resulted in an impairment being recognised of $2.5bn.<br>We discussed the appropriateness of the recoverable amount and the assumptions used with the GAC |
| **Procedures performed to support our discussions and conclusions** |
| • We assessed the appropriateness of the methodology used to calculate the recoverable amount.<br>• The determination of assumptions, including future cash flows, long term growth rates, discount rates and fair values were challenged. Where available, external information was obtained and used to audit management's assumptions.<br>• We assessed whether the estimation of the recoverable amount was in accordance with accounting standards.<br>• We read and assessed the disclosures made in the Annual Report and Accounts 2019 in relation to investment in subsidiaries. |
| **Relevant references in the *Annual Report and Accounts 2019*** |
| Note 19, page 286. |

There were a number of other matters which were covered in the meetings with the GAC, including;

- internal controls over financial reporting. At the GAC meetings in December 2019 and February 2020, there was an update on the control environment over financial reporting. We provided information on the aggregate number of new and outstanding control deficiencies identified by PwC and management. Those deemed to be significant in their potential impact on financial reporting, but not material, were discussed individually;
- other areas where management judgement had been applied. During the year this included discussions relating to: customer redress programmes, particularly in the UK; restructuring provisions & other related costs; the present value of in-force long-term insurance business; fair value of financial instruments; and uncertain tax positions.
- a discussion on the results of quality inspections performed with respect to the audit work of different PwC Network firms on which we rely and the rotation plans of the audit partners working on the Group audit.

## Going concern

On page 41, the Directors confirmed their belief it was appropriate to prepare the financial statements on a going concern basis, because they believe that the Group and the parent company will continue in business. That statement also included confirmation that they had not identified any material uncertainties to either the Group's or the parent company's ability to continue as a going concern over a period of at least twelve months from the date of their approval of these financial statements. Because not all future events or conditions can be predicted, this statement is not a guarantee. I reviewed this statement, and considered HSBC's budgets, cash flows, capital plan and stress tests.

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Other required matters and reporting on other information

The *Annual Report and Accounts 2019* contains a considerable amount of other information that is required by regulators or standard setters and is outside of the audited financial statements and the auditors' report. This information, while being unaudited, may still be important to your consideration of the performance and position of HSBC, for example risk weighted assets. The Directors are responsible for this other information.

In the table below, we have set out certain areas, our related responsibilities and reporting. Except as outlined in the table, we have not provided an audit opinion or any form of assurance. It is important that you understand the limitations in the scope of our responsibility, particularly over areas important to considering the future potential of HSBC such as the Viability Statement and how the Group's key risks are managed.

| Area of the *Annual Report and Accounts 2019* | Our responsibility | Our reporting |
|---|---|---|
| **Directors' remuneration report on pages** 184 to 217 | | |
| Those parts of which are marked as audited. | Consider whether the information is properly prepared. | In our opinion, this information has been properly prepared in accordance with the Companies Act 2006. |
| Other remuneration report disclosures. | Consider whether certain other disclosures specified by the Companies Act have been made. | The other required disclosures have been made. |
| **Other areas** | | |
| Strategic Report and the Report of the Directors (as defined on pages 2 to 218). | Consider whether they are consistent with the audited financial statements.<br>Consider whether they are prepared in accordance with applicable legal requirements.<br>Report if we have identified any material misstatements in either report. This is based on our knowledge and understanding of the Group and parent company and the environment they operate in that was obtained during the audit. | In our opinion, based on the work undertaken in the course of the audit, the information in these reports is consistent with the audited financial statements and prepared in accordance with applicable legal requirements.<br>We have no material misstatements to report. |
| Viability statement on page 41 which considers the longer term sustainability of the Group's business model, as to whether the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, and why the Directors consider that period to be appropriate.<br>This includes confirmation of the Directors' robust assessment of principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and disclosures describing those risks and how they are managed or mitigated. | Review the confirmation and description in the light of the knowledge gathered during the audit, including making enquiries and considering the Directors' processes used to support the statements made.<br>Consider if the statements are aligned with the relevant provisions of the UK Corporate Governance Code (the "Code"). | We have nothing material to draw attention to or to add to the confirmation or description. |
| GAC Report on page 173. | Consider whether it deals appropriately with those matters that I reported to the GAC. | No exceptions to report. |
| Directors' statement on page 219 that they consider the HSBC *Annual Report and Accounts 2019*, taken as a whole, to be fair, balanced and understandable and provides the information necessary for you to assess HSBC's position and performance, business model and strategy. | Consider whether any information found during the course of the audit would cause us to disagree. | No disagreements to report. |
| Corporate governance report on pages 157 to 218. | Consider whether the Directors' statement relating to the parent company's compliance with the Code properly discloses any departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors. | Nothing to report following my review. |
| All other information in the *Annual Report and Accounts 2019* aside from the audited financial statements and the auditors' report. | Read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge gained in the audit, or otherwise appears to be materially misstated. I am required to perform additional work to validate if apparent inconsistencies or misstatements are real, and report those matters to you. | Nothing to report following my review. |

**Other Reporting**

In addition, we are required to report to you under the Companies Act 2006 if:

- we have not received all of the information and explanations required for our audit;
- adequate accounting records have not been kept by the parent company;
- returns adequate for our audit have not been received from branches not visited by PwC; and
- the parent company financial statements and the audited part of the Directors' remuneration report do not agree with the accounting records and returns.

We have no exceptions to report as a result of any of these responsibilities.

**Use of this report**

This report, including the opinions, has been prepared for and only for you, the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come except where expressly agreed by our prior written consent.

**Scott Berryman** (Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London, United Kingdom

18 February 2020