Corporate governance report

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

Group Chairman's governance statement

Despite the challenging environment, the Board remained informed on relevant issues, engaged with stakeholders, and oversaw the development of our new Group purpose and values.

Mark E Tucker
Group Chairman

"Governance improvements will remain an area of focus for the Board and its subsidiaries in the years ahead as the Group aims to achieve its ambition of operating with world-class governance."

Dear Shareholder

With the global pandemic and challenging macroeconomic and geopolitical environment, 2020 was an extraordinary year for the Board. These challenges have highlighted the importance of our governance framework and operating practices. Against this backdrop, the Board oversaw the development of the Group's future purpose and strategy led by the Group Chief Executive. We adapted our Board and senior management engagement schedule to ensure that as a Board, we continued to deliver on our responsibilities to our key stakeholders.

As Group Chairman, I am ultimately responsible for the Group's governance arrangements and the effective operation of the Board. I am also responsible for ensuring that the Board sets the right tone from the top of the organisation and monitors the Group's culture. Given the unique challenges faced during 2020 as a result of the Covid-19 outbreak, it was important that the Board was properly informed on a regular basis on all key issues and priorities affecting the Group. To achieve this, we increased our Board communication and met more frequently during 2020, albeit remotely and with scheduling flexed to meet the challenges of Directors based in different time zones. This allowed us to share insights and receive updates on key developments, supported by the attendance of external subject matter experts.

Given the restrictions on travel and large gatherings, and the guidance available to us at the time, we took the decision to hold the 2020 AGM behind closed doors. As we approach our 2021 AGM, we will continue to monitor the situation, and will prioritise the health and safety of the Board, our colleagues and of course our shareholders. Further details will be provided when our Notice of AGM is published on 24 March 2021.

Board changes
Following a thorough and robust search process, as more fully set out in the Nomination & Corporate Governance Committee report on page 213, the Board unanimously supported the appointment of Noel Quinn as Group Chief Executive on 17 March 2020. Noel has provided strong direction and excellent leadership to HSBC through these unprecedented times.

I would like to thank Sir Jonathan Symonds and Kathleen Casey who stepped down from the Board earlier this year. We subsequently appointed three new Directors, James Forese, Steven Guggenheimer and Eileen Murray, who collectively bring strong universal banking, operational and technology expertise.

While the Board and its committees have operated well in a virtual environment, I do not underestimate the value of in-person meetings. Our three new Directors underwent a successful virtual non-executive Director induction programme during the year and we look forward to welcoming them in person at an appropriate point in the future.

Today we also announce that Laura Cha will step down from the Board at the conclusion of our 2021 AGM in May. On behalf of the Board, I wish to thank Laura for her outstanding dedication and the enormous contribution she has made to the success of HSBC over many years. I greatly appreciate the support and counsel that she has provided to me personally on many occasions since I became the Group Chairman.

The Board initiated a search for suitable candidates to join and strengthen the expertise on the Board, and further enhance our Board diversity and knowledge of Asia. I was delighted that last week we were able to announce the appointment of Dame Carolyn Fairbairn as an independent non-executive Director. Carolyn will bring a wealth of relevant experience to our Board and her appointment will be effective from 1 September 2021. I am pleased to report we are in advanced stages on other searches that will result in further strengthening the Board's skill set.

Board evaluation

In line with best practice, the Board and its committees again conducted a review of the effectiveness of our operation and practices.

Our 2019 review identified a number of areas for improvement in the way that the Board operated. We took a number of actions during the second half of 2019 and throughout 2020 to address the areas identified, which contributed to improved effectiveness despite the challenges posed by Covid-19 and the uncertain geopolitical environment.

We took the decision to once again invite Dr Tracy Long, the independent board evaluator, to facilitate our 2020 review, provide assurance on the progress made, and identify any areas where further action was required. Further details of the process, findings and recommendations from the 2020 review can be found on page 211.

Subsidiary governance

During the year, the Board requested the Group Company Secretary and Chief Governance Officer to undertake a review of subsidiary governance, including a review of the composition of the principal subsidiary boards. Following this exercise, principal subsidiaries will report to the Nomination & Corporate Governance Committee during 2021 on their future board compositions and succession plans to help ensure that they have effective and diverse skill sets that are aligned with our future strategy. Further details are set out in the Nomination & Corporate Governance Committee report on page 213.

We enhanced our subsidiary accountability framework, which applies to all subsidiaries within the Group, by supplementing this with clear principles and provisions. The refreshed framework builds on the progress made to enhance Group standards with the aim of achieving world-class governance across all our subsidiaries.

We strengthened connectivity between the HSBC Holdings Board and principal subsidiaries by increasing the frequency of the Chairman's Forum meetings. These monthly meetings – which I chair – are attended by the chairs of the Holdings Board committees and the chairs of the principal subsidiaries' boards. Given the significant uncertainty and challenges that the Group, the industry and wider society encountered in 2020, these more frequent meetings proved hugely beneficial in identifying and navigating the challenges facing the Group globally.

Purpose and values

As we developed our purpose and values, the Board undertook significant engagement with key stakeholders. Their input was important and influenced the outcome. It is critical that the values and associated behaviours are embedded across the Group. Senior management's success in embedding the purpose and values will be overseen by the Board. The Board and the Group Executive Committee set the tone from the top by adopting these refreshed values, which will inform the Board's engagement practices and help facilitate an open and collaborative relationship with its stakeholders. The boardroom guidelines, which set out the ways of working between the Board and management and which were implemented in 2020, also support the engagement between the Board and management.

Further details of the Board's consideration when developing the purpose and values can be found in our section 172 statement on page 24.

Climate commitments

Environmental, social and governance ('ESG') issues have been an area of significant Board focus during 2020. This has been in the form of formal consideration of our strategy and ambitions in relation to ESG and climate issues, as well as training to provide the Board with insight and an understanding of the developing landscape and stakeholder expectations.

Recognising the importance of these matters to our stakeholders, investors and customers, the Board was pleased to announce our updated climate ambition in October 2020. Further information is provided on pages 24 and 44.

Workforce engagement

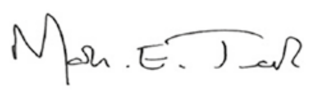
Members of the Board and subsidiary boards engaged actively with our employees during 2020 in line with the requirements of the 2018 UK Corporate Governance Code in relation to workforce engagement.

Despite travel restrictions, all of the non-executive Directors engaged directly with members of the workforce across our global business lines, and through our employee resource groups. This has provided great insight into the views of the wider workforce and gave valuable context for the Directors in informing their discussions at the Board. Further details of our workforce engagement practices during 2020 can be found on page 210.

Looking ahead

I am pleased with the progress that the Board and broader Group have made in enhancing our governance practices during 2020. Governance improvements will remain an area of focus for the Board and its subsidiaries in the years ahead as the Group aims to achieve its ambition of operating with world-class governance.

As a result of the Covid-19 outbreak, we have had to adjust how we engage with our shareholders and other stakeholders, with in-person meetings substituted for virtual meetings where necessary. Despite this, we continued to engage fully with institutional investors. With encouraging news regarding successful vaccines, I look forward to resuming in-person engagement practices with our stakeholders when safe to do so.



Mark E Tucker
Group Chairman

23 February 2021

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 (63) C
Group Chairman
Appointed to the Board: September 2017
Group Chairman since: October 2017

Skills and experience: With over 30 years' 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 TheCityUK
– Non-executive Chairman of Discovery Limited
– Member of Build Back Better Council
– Supporting Chair of Chapter Zero

Noel Quinn (59)
Group Chief Executive
Appointed to the Board: August 2019
Group Chief Executive since: March 2020

Skills and experience: Noel has more than 30 years' banking and financial services experience, both in the UK and Asia, with over 28 years at HSBC.

Career: Noel was formally named Group Chief Executive in March 2020, having held the role on an interim basis since August 2019. He 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.

External appointments:
– Chair of the Financial Services Task Force of the Sustainable Market Initiative

Ewen Stevenson (54)
Group Chief Financial Officer
Appointed to the Board: January 2019

Skills and experience: Ewen has over 25 years' experience in the banking industry, both as an adviser to major banks and as an executive of large financial institutions. In addition to his existing leadership responsibilities for Group Finance, Ewen assumed responsibility for the oversight of the Group's transformation programme in February 2021 and will assume responsibility for the Group's mergers and acquisitions activities in April 2021.

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

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

Independent non-executive Directors

Laura Cha, GBM (71) ●
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 the Grand Bauhinia Medal 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

Henri de Castries (66) ○ ●
Independent non-executive Director
Appointed to the Board: March 2016

Skills and experience: Henri has more than 25 years' 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
- Senior Independent non-executive Director of Stellantis NV

James Forese (58) ● ○ ●
Independent non-executive Director
Appointed to the Board: May 2020

Skills and experience: James has over 30 years' international business and management experience in the finance industry.

Career: James formerly served as President of Citigroup. He began his career in securities trading with Salomon Brothers, one of Citigroup's predecessor companies, in 1985. In addition to his most recent role as President and Chief Executive Officer of Citigroup's Institutional Clients Group, he has been Chief Executive of its Securities and Banking division and head of its Global Markets business. On 1 January 2021, he became a non-executive Director of HSBC North America Holdings Inc.

External appointments:
- Non-executive Chairman of Global Bamboo Technologies
- Trustee of Colby College

Steven Guggenheimer (55) ○ ●
Independent non-executive Director
Appointed to the Board: May 2020

Skills and experience: Steven is an experienced technology executive with a strong track record of advising businesses on digital transformation. He brings extensive insight into technologies ranging from artificial intelligence to Cloud computing.

Career: Steven has more than 25 years' experience at Microsoft, where he has held a variety of senior leadership roles. These include: Corporate Vice President for AI Business; Corporate Vice President of AI and ISV Engagement; Chief Evangelist; and Corporate Vice President, Original Equipment Manufacturer.

External appointments:
- Non-executive Director of Forrit Technologies Limited
- Advisor to Tensility Venture Fund
- Advisory Board Member of 5G Open Innovation Lab

Independent non-executive Directors

Irene Lee (67) ○●
Independent non-executive Director
Appointed to the Board: July 2015

Skills and experience: Irene has more than 40 years' 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.
- Chair of Hang Seng Bank Limited (from the conclusion of its 2021 AGM)

Dr José Antonio Meade Kuribreña (51) ○●
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 (67) ○●
Independent non-executive Director
Appointed to the Board: September 2014

Skills and experience: Heidi has more than 30 years' 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 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. She is currently Chair of HSBC North America Holdings Inc.

External appointments:
- Non-executive Director of Fiserv Inc.
- Chair of the Audit Committee of Fiserv, Inc.

Eileen Murray (62) ●○●
Independent non-executive Director
Appointed to the Board: July 2020

Skills and experience: Eileen is an accomplished executive with extensive knowledge in financial technology and corporate strategy from a career spanning more than 40 years.

Career: Eileen most recently served as co-Chief Executive Officer of Bridgewater Associates, LP. Prior to joining Bridgewater, she was Chief Executive Officer for Investment Risk Management LLC and President and co-Chief Executive Officer of Duff Capital Advisors.

She started her professional career in 1984 at Morgan Stanley, where she held several senior positions including Controller, Treasurer, and Global Head of Technology and Operations, as well as Chief Operating Officer for its Institutional Securities Group. From 2002 to 2005, she was Head of Global Technology, Operations and Product Control at Credit Suisse and served on its management and executive board.

External appointments:
- Chair of the Financial Industry Regulatory Authority
- Non-executive Director of Compass
- Non-executive Director of Guardian Life Insurance Company of America
- Director of HumanityCorp
- Non-executive Director of Atlas Crest Investment Corp.

David Nish (60)
Independent non-executive Director
Appointed to the Board: May 2016
Senior Independent non-executive Director since February 2020

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

Jackson Tai (70)
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 a managing director and senior officer for Asia-Pacific, and executive director and Head of Japan Capital Markets in the investment banking division of 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 (61)
Independent non-executive Director
Appointed to the Board: September 2015

Skills and experience: Pauline has extensive legal, corporate governance 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 ABN AMRO Bank N.V. and 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.
- 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
- Non-executive Director of Viatris, Inc.

Aileen Taylor (48)
Group Company Secretary and Chief Governance Officer
Appointed: November 2019

Skills and experience: Aileen has significant governance and regulatory experience across various roles in the banking industry. She is a solicitor and a member of the European Corporate Governance Council, the GC100 and the Financial Conduct Authority's Listing Authority Advisory Panel.

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

Sir Jonathan Symonds
Sir Jonathan Symonds retired from the Board on 18 February 2020.

Kathleen Casey
Kathleen Casey retired from the Board on 24 April 2020.

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

Senior management

Senior management, which includes the Group Executive Committee, supports the Group Chief Executive in the day-to-day management of the business and the implementation of strategy.

Elaine Arden (52)
Group Chief Human Resources Officer

Elaine joined HSBC as 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 and a fellow of the Chartered Banker Institute.

Colin Bell (53)
Chief Executive Officer, HSBC Bank plc and HSBC Europe

Colin joined HSBC in July 2016 and was appointed Chief Executive Officer, HSBC Bank plc and HSBC Europe on 22 February 2021. He previously held the role of Group Chief Compliance Officer, and also led the Group transformation oversight programme. Colin previously worked at UBS, which he joined in 2007, 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.

Jonathan Calvert-Davies (52)
Group Head of Audit

Jonathan joined HSBC as Group Head of Audit in October 2019 and is a standing attendee of the Group Executive Committee. 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.

Georges Elhedery (46)
Co-Chief Executive Officer, Global Banking and Markets

Georges joined HSBC in 2005 and was appointed as co-Chief Executive Officer of Global Banking and Markets in March 2020. He is also head of the Markets and Securities Services division of the business. Georges previously served as Chief Executive Officer for HSBC, Middle East, North Africa and Turkey and Head of Global Markets; Head of Global Banking and Markets, MENA; and Regional Head of Global Markets, MENA.

Kirsty Everett (44)
Interim Group Chief Compliance Officer

Kirsty was appointed as Interim Group Chief Compliance Officer on 22 February 2021. She took on this role in addition to her existing responsibilities as the Global Chief Operating Officer for the Compliance function. She joined HSBC in March 2019 as the Chief of Staff and Head of Digital Transformation for Compliance. Prior to joining HSBC, Kirsty was the designated Chief Compliance Officer, Head of Conduct Risk and Operational Risk, Head of Monitoring and Oversight at UBS, having originally joined from Deloitte in 2012.

Greg Guyett (57)
Co-Chief Executive Officer, Global Banking and Markets

Greg joined HSBC in October 2018 as Head of Global Banking and became co-Chief Executive Officer of Global Banking and Markets in March 2020. Prior to joining HSBC, he was President and Chief Operating Officer of East West Bank. Greg began his career as an investment banker at J.P. Morgan, where positions included: Chief Executive Officer for Greater China; Chief Executive Officer, Global Corporate Bank; Head of Investment Banking for Asia-Pacific; and Co-Head of Banking Asia-Pacific.

John Hinshaw (50)
Group Chief Operating Officer

John became Group Chief Operating Officer in February 2020, having joined HSBC in December 2019. 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. He also held senior roles at Boeing and Verizon and served on the Board of Directors of BNY Mellon.

Bob Hoyt (56)
Group Chief Legal Officer

Bob joined HSBC as Group Chief Legal Officer in January 2021. He was most recently Group General Counsel at Barclays from 2013 to 2020. Prior to that he was General Counsel and Chief Regulatory Affairs Officer for The PNC Financial Services Group. Bob has served as General Counsel to the US Department of the Treasury under Secretary Paulson, and as Special Assistant and Associate Counsel to the White House under President George W. Bush.

Pam Kaur (57)
Group Chief Risk Officer

Pam was appointed Group Chief Risk Officer in January 2020, having joined HSBC in 2013. She was previously Head of Wholesale Market and Credit Risk and Chair of the enterprise-wide non-financial risk forum. Pam has also served as Group Head of Internal Audit and 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.

Nuno Matos (53)
Chief Executive Officer, Wealth and Personal Banking

Nuno joined HSBC in 2015 and was appointed Chief Executive Officer of Wealth and Personal Banking on 22 February 2021. He was previously the Chief Executive Officer of HSBC Bank plc and HSBC Europe, a role he held from March 2020. He has also served as Chief Executive Officer of HSBC Mexico, and as regional head of Retail Banking and Wealth Management in Latin America. Prior to joining HSBC, he held senior positions at Santander Group.

Stephen Moss (54)
Regional Chief Executive

Stephen joined HSBC in 1992. He was named Regional Chief Executive in March 2020, with responsibility for overseeing the Group's businesses in Europe (apart from HSBC UK); the Middle East, North Africa and Turkey ('MENAT'); Latin America; and Canada. He previously held the role of Chief of Staff to the Group Chief Executive and oversaw the Group's mergers and acquisitions and strategy and planning activities. Stephen will be appointed as CEO, MENAT, in April 2021 subject to regulatory approval. Stephen is a non-executive Director of The Saudi British Bank, HSBC Bank Middle East Limited, HSBC Middle East Holdings B.V, HSBC Latin America Holdings (UK) Limited and HSBC Bank Canada.

Barry O'Byrne (45)
Chief Executive Officer, Global Commercial Banking

Barry joined HSBC in April 2017 and was appointed Chief Executive of Global Commercial Banking in February 2020, having served in the role on an interim basis since August 2019. He was previously Chief Operating Officer for Global Commercial Banking. 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 (60)
President and Chief Executive Officer, HSBC USA

Michael joined HSBC 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. Michael will assume executive responsibility for the Group's Canadian and Latin American businesses, in addition to his existing responsibilities in relation to the US. His expanded role as CEO, US and Americas will take effect from April 2021. 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 of Citibank N.A.

John David Stuart (known as Ian Stuart) (57)
Chief Executive Officer, HSBC UK Bank plc

Ian has been Chief Executive Officer of HSBC UK Bank plc since April 2017 and has worked in financial services for over four decades. He joined HSBC as 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 member of the Economic Crime Strategic Board.

Peter Wong (69)
Deputy Chairman and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited

Peter joined HSBC in 2005 and 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 Council Member of Hong Kong Trade Development Council, a member of its Belt and Road Committee; and Chairman of the Hong Kong General Chamber of Commerce.

Additional members of the Group Executive Committee

Noel Quinn

Ewen Stevenson

Aileen Taylor

Biographies are provided on pages 198 and 201.

How we are governed

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

Board's role, Directors' responsibilities and attendance

The Board, led by the Group Chairman, is responsible among other matters for:

- promoting the Group's long-term success and delivering sustainable value to shareholders;
- establishing and approving the Group's strategy and objectives and monitoring the alignment of the Group's purpose, strategy and values with the desired culture;
- setting the Group's risk appetite and monitoring the Group's risk profile;
- approving and monitoring capital and operating plans for achieving strategic objectives; and
- approving material transactions.

The Board's terms of reference are available on our website at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

The Board's powers are subject to relevant laws, regulations and HSBC's articles of association.

The role of the independent non-executive Directors is to support the development of proposals on strategy, hold management to account and ensure the executive Directors are discharging their responsibilities properly, while creating the right culture to encourage constructive challenge. Non-executive Directors also review the performance of management in meeting agreed goals and objectives. The Group Chairman meets with the non-executive Directors without the executive Directors in attendance after Board meetings and otherwise, as necessary.

The roles of Group Chairman and Group Chief Executive are separate. There is a clear division of responsibilities between the leadership of the Board by the Group Chairman, and the executive responsibility for day-to-day management of HSBC's business, which is undertaken by the Group Chief Executive.

The majority of Board members are independent non-executive Directors. At 31 December 2020, the Board comprised the Group Chairman, 11 non-executive Directors, and two executive Directors who are the Group Chief Executive and the Group Chief Financial Officer. With effect from 1 January 2020, the role of the Group Chief Risk Officer ceased to be a member of the Board.

For further details of the Board's career background, skills, experience and external appointments, see pages 198 to 201.

Operation of the Board

The Board is ordinarily scheduled to meet at least seven times a year. In 2020, due to the Covid-19 outbreak, the Board held 17 meetings. The Board agenda is agreed by the Group Chairman, working with the Group Company Secretary and Chief Governance Officer and the Group Chief Executive. For more information, see the section on 'Board activities during 2020' on page 209.

The Group Chief Risk Officer and Group Chief Legal Officer are regular attendees at Board meetings, and other senior executives attend as required.

Outside of Board meetings, the Board Oversight Sub-Group, established by the Group Chairman, meets in advance of each Board meeting as an informal mechanism for a smaller group of Board members and management to discuss emerging issues. This group provides regular opportunities for members of the Board to communicate with senior management to deepen understanding of, and provide input into, key issues facing the Group. For further details of how the Board engages with the workforce, see page 210.

How Board governance was adapted for Covid-19

The Board oversaw the implementation of various governance changes introduced in response to the Covid-19 outbreak. Board and committee agendas were tailored to focus on key priorities taking into account the need to hold most meetings via videoconference. The challenges that arose from communicating across three time zones were navigated by remaining agile in meeting arrangements and through increased frequency of communications during the year.

In addition to substantially increasing the frequency of Board and executive committee meetings, the following changes were implemented to improve connectivity, and provide an understanding of the challenges and priorities of the management team as it led the organisation through the crisis:

- The Group Chairman introduced a weekly Board update note.
- Management produced a weekly Board report on its response to the Covid-19 outbreak.
- A Board Oversight Sub-Group was set up to provide guidance to the executive team on emerging issues.
- The chairs of our principal subsidiaries and the chairs of the Group's Board committees attended the Group Chairman's Forum each month.

Technology governance

In light of the increasingly significant role of technology in the Group's strategy, operations and growth prospects, in January 2021 the Board approved the establishment of a Technology Governance Working Group for a period of 12 months.

The working group has been tasked with developing recommendations to strengthen the Board's oversight of technology strategy, governance and emerging risks and enhance connectivity with the principal subsidiaries.

The working group will be jointly chaired by Eileen Murray and Steven Guggenheimer, given their expertise and experience in this area. Jackson Tai, the Group Risk Committee Chair, will be a member, along with other non-executive Directors to be nominated by each of our US, UK, European and Asian principal subsidiaries. The co-Chairs will each receive fees in respect of their leadership of the working group over the next 12 months. Details of these fees can be found on page 238.

Key IT and business staff will attend the Technology Governance Working Group to provide insights on key technology issues across the Group allowing the working group to make recommendations for enhanced Board oversight of technology.

The total time commitment expected of the co-chairs will be up to 30 days, reflective of the complexity and profile of the subject matter.

Board engagement with shareholders

In 2020, the Group Chairman, Senior Independent Director and the Group Company Secretary and Chief Governance Officer engaged with a number of our large institutional investors in over 20 meetings, primarily ahead of the 2020 AGM. Topics that were raised included geopolitical tensions, primarily relating to Hong Kong, mainland China, the US and the UK, as well as Board composition, changes to the Group Executive Committee, our climate policy and the impact of the Covid-19 outbreak on the Group, its employees, customers and communities.

The Group Remuneration Committee Chair also engaged with key investors and proxy advisory firms on our remuneration approach in respect of the 2020 performance year. During such engagements, the Group Remuneration Committee Chair kept investors informed on other matters including the Group's response to the Covid-19 outbreak and the Group Chief Executive's and Group Chief Financial Officer's salary sacrifice and charitable donations.

Board roles, responsibilities and attendance

At 31 December 2020, the Board comprised the Group Chairman, 11 non-executive Directors and two executive Directors. The table below sets out their roles, responsibilities and attendance at Board meetings. For a full description of responsibilities see www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

Roles	Board attendance in 2020	Responsibilities
Group Chairman Mark E Tucker[1,2]	17/17	• Provides effective leadership of the Board and promotes the highest standards of corporate governance practices. • Leads the Board in providing strong strategic oversight and setting the Board's agenda, culture and values. • Leads the Board in challenging management's thinking and proposals, and foster open and constructive debate among Directors. • Maintains external relationships with key stakeholders and communicates investors' views to the Board. • Evaluates the performance of the Board, Committees, non-executive Directors and Group Chief Executive.
Executive Director **Group Chief Executive** Noel Quinn[2]	17/17	• Leads and directs the implementation of the Group's business strategy, embedding the organisation's culture and values. • Leads the Group Executive Committee with responsibility for the day-to-day operations of the Group, under authority delegated to him from the Board. • Maintains relationships with key stakeholders including the Group Chairman and the Board.
Executive Director **Chief Financial Officer** Ewen Stevenson[2]	17/17	• Supports the Group Chief Executive in developing and implementing the Group strategy and recommends the annual budget and long-term strategic and financial plan. • Leads the Finance function and is responsible for effective financial reporting, including the effectiveness of the processes and controls, to ensure the financial control framework is robust and fit for purpose. • Maintains relationships with key stakeholders including shareholders.
Non-executive Directors **Senior Independent Director** David Nish[2,3]	17/17	• Supports the Group Chairman, acting as intermediary for non-executive Directors when necessary. • Leads the non-executive Directors in the oversight of the Group Chairman, supporting the clear division of responsibility between the Group Chairman and the Group Chief Executive. • Listens to shareholders' views if they have concerns that cannot be resolved through the normal channels.
Laura Cha[3]	17/17	• Develop and approve the Group strategy. • Challenge and oversee the performance of management. • Approve the Group's risk appetite and review risk profile and performance.
Henri de Castries[3]	17/17	
James Forese[3]	12/12	
Steven Guggenheimer[3]	12/12	
Irene Lee[3]	17/17	
Dr José Antonio Meade Kuribreña[3]	17/17	
Heidi Miller[3,4]	16/17	
Eileen Murray[3,4]	5/7	
Jackson Tai[3]	17/17	
Pauline van der Meer Mohr[3]	17/17	
Kathleen Casey[3]	5/5	
Sir Jonathan Symonds[3]	2/2	
Group Company Secretary and Chief Governance Officer Aileen Taylor		• Maintains strong and consistent governance practices at Board level and throughout the Group. • Supports the Group Chairman in ensuring effective functioning of the Board and its committees, and transparent engagement between senior management and non-executive Directors. • Facilitates induction and professional development of non-executive Directors. • Advises and supports the Board and management in ensuring effective end-to-end governance and decision making across the Group.

1 *The non-executive Group Chairman was considered to be independent on appointment.*
2 *Mark Tucker, David Nish, Noel Quinn and Ewen Stevenson attended the AGM on 24 April 2020. As a consequence of the UK Government's Covid-19 guidance and prohibitions at the time of the AGM, only a limited number of Directors and essential personnel attended the AGM to ensure a quorum was present and to conduct the business of the meeting.*
3 *Independent non-executive Director. 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. All non-executive Directors have confirmed their independence during the year. Kathleen Casey and Sir Jonathan Symonds retired from the Board on 24 April 2020 and 18 February 2020 respectively.*
4 *Eileen Murray was unable to attend two Board meetings owing to prior commitments made before her appointment to the Board. Heidi Miller was unable to attend one Board meeting that was arranged at short notice owing to a pre-scheduled external commitment.*

Board induction and training

The Group Company Secretary and Chief Governance Officer works with the Group Chairman to oversee appropriate induction and ongoing training programmes for the Board. On appointment, new Board members are provided with tailored, comprehensive induction programmes to fit with their individual experiences and needs, including the process for dealing with conflicts.

The structure of the induction allows a Board member to contribute meaningfully from appointment. An early focus on induction supports good information flows within the Board and its committees and between senior management and non-executive Directors, providing a better understanding of our culture and way of operating. During 2020 we welcomed three new non-executive Directors to our Board and also facilitated the Group Chief Executive's induction. For illustrations of the typical induction modules, see the 'Directors' induction and ongoing development in 2020' table on the following page.

Although there were constraints due to the Covid-19 outbreak, virtual meetings enabled our new non-executive Directors to engage with colleagues and key external personnel in a shorter time period than would have been the case if meeting in person.

When it is safe to recommence Board travel to our global locations, we will take opportunities to facilitate comprehensive face-to-face engagement. These opportunities provide invaluable insight and understanding of our business, customers, culture and people.

Directors undertook routine training during 2020. They also participated in 'deep dive' sessions into specific areas of the Group's strategic priorities, risk appetite and approach to managing certain risks. These focused on areas such as: technology and Cloud capability; climate change; financial crime; shareholder activism; and business and governance. External consultants, in conjunction with the Group Company Secretary and Chief Governance Officer, provided specific training to members of relevant boards and executive committees within scope for the Senior Managers and Certification Regime. This included practical examples of responsibility in decision making and discussion of relevant case studies.

In addition, non-executive Directors discussed individual development areas with the Group Chairman during performance reviews and in conversations with the Group Company Secretary and Chief Governance Officer. The Group Company Secretary and Chief Governance Officer makes appropriate arrangements for any additional training needs identified using internal resources, or otherwise, at HSBC's expense.

Between the induction and training programmes, the Directors' understandings of key matters and risks for the business are supported so that they provide effective, informed and insightful challenge in their leadership and oversight roles.

Members of Board committees receive relevant training as appropriate. Directors may take independent professional advice at HSBC's expense.

Board Directors who serve on principal subsidiary boards also receive training relevant to those boards. Opportunities exist for the principal subsidiary and principal subsidiary committee chairs to share their understanding in specific areas with the Board Directors.

James Forese
Non-executive Director

'I was impressed with the smooth and thorough management of my induction at a time when the Covid-19 outbreak was otherwise creating confusion and uncertainty.

Shifting quickly to a remote, video-enabled process allowed me to be introduced to other Board members and to meet a wide range of senior executives from across the global businesses, regions and functions in quick succession.

Conversations with management were informative and comprehensive.

Where I had questions or wanted further conversations, the team responded swiftly and engaged in additional sessions as requested. Despite the lack of the usual in-person induction meetings, the open culture at HSBC helped me to come up the learning curve quickly and made me feel immediately welcomed.'

Directors’ induction and ongoing development in 2020

Director	Induction[1]	Strategy and business briefings[2]	Risk and control[3]	Corporate governance[4]	Global mandatory training[5]	ARCC, Chairs and Remco Forum	Subsidiary
Kathleen Casey	○	●	●	●	●	●	○
Laura Cha	○	●	●	●	●	●	●
Henri de Castries	○	●	●	●	●	○	○
James Forese	●	●	●	●	●	○	○
Steven Guggenheimer	●	●	●	●	●	○	○
Irene Lee	○	●	●	●	●	●	●
José Antonio Meade Kuribreña	○	●	●	●	●	●	○
Heidi Miller	○	●	●	●	●	●	●
Eileen Murray	●	●	●	●	●	○	○
David Nish	○	●	●	●	●	●	○
Noel Quinn	●	○	●	●	●	●	○
Ewen Stevenson	○	●	●	●	●	●	○
Jackson Tai	○	●	●	●	●	●	○
Mark Tucker	○	●	●	●	●	●	○
Pauline van der Meer Mohr	○	●	●	●	●	●	○

1 *The induction programme is delivered through formal briefings and introductory sessions with Board members, senior management, treasury executives, legal counsel, auditors, brokers, tax advisers and regulators. Topics covered included: values, culture and leadership; governance and stakeholder management; Directors’ legal and regulatory duties; anti-money laundering and anti-bribery; technical and business briefings; and strategy.*

2 *Directors participated in business strategy, market development and business briefings, which are global, regional and/or market-specific. Examples of specific sessions held in 2020 included 'Asia growth: build and strengthen in Hong Kong' and 'Strategic priority: growth of UK ring-fenced bank'.*

3 *Directors received risk and control training. Examples of specific sessions held in 2020 included 'Governance of climate-related risk', 'Wholesale and retail credit risk management', 'Forward-looking financial crime risk issues', ‘Resolvability assessment framework’ and ‘Technology terminology’.*

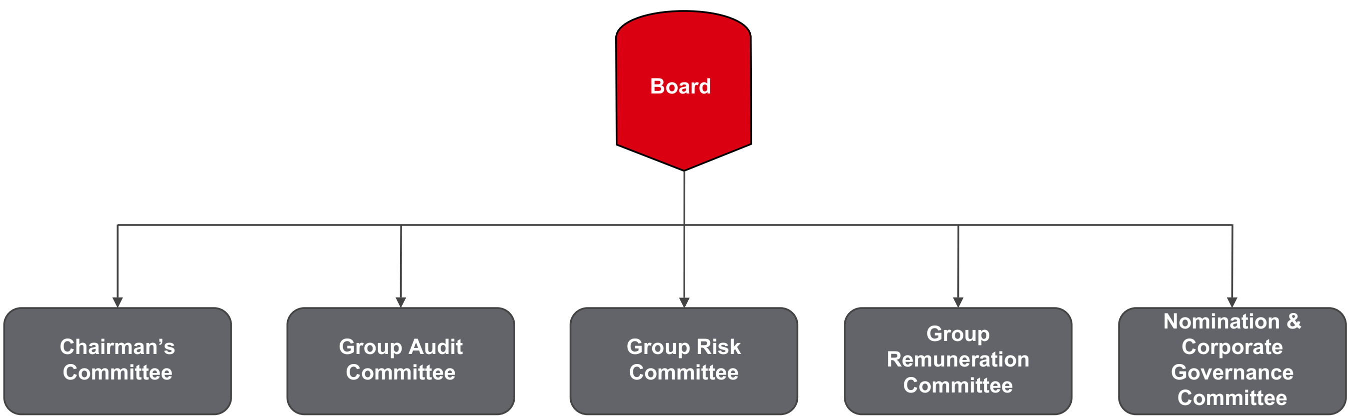
4 *All Directors received corporate governance training including ‘Senior Managers and Certification Regime’ and ‘Climate and sustainable finance’.*

5 *Global mandatory training, issued to all Directors, mirrored training undertaken by all employees, including senior management. These included management of risk under the enterprise risk management framework, with a focus on operational risk; cyber risk and fraud; health, safety and well-being; data privacy and the protection of data of our customers and colleagues; combating financial crime, including understanding money laundering, sanctions, and bribery and corruption risks; and our values and conduct, including workplace harassment and speaking up.*

Board committees

The Board delegates oversight of certain audit, risk, remuneration, nomination and governance matters to its committees. Each standing Board committee is chaired by a non-executive Board member and has a remit to cover specific topics in accordance with their respective terms of reference. Only independent non-executive Directors are members of Board committees. Details of the work carried out by each of the Board committees can be found in the respective committee reports from page 213.

In addition, the Chairman’s Committee is convened to provide flexibility for the Board to consider ad hoc Board and routine matters between scheduled Board meetings. It meets with attendees determined by the nature of the proposed business to be discussed.



Relationship between Board and senior management

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 Executive Committee ('GEC'), an executive forum that he chairs comprising members of senior management.

The Directors are encouraged to have free and open contact with management at all levels and full access to all relevant information. Non-executive Directors are encouraged to visit local business operations and meet local management when they attend off-site Board meetings and when travelling for other reasons, although this was not possible during 2020 due to the Covid-19 outbreak.

Executive governance

The Group's executive governance is underpinned by the Group operating rhythm, which sets out the Board and executive engagement schedule. This was refreshed for 2020 to facilitate end-to-end governance flowing up from executive governance to the Board.

The Group operating rhythm is characterised by three pillars:

i. The GEC normally meets every week to discuss current and emerging issues. However, during 2020 it met much more frequently as a result of Covid-19.

ii. On a monthly basis, the GEC reviews the performance of global businesses, principal geographical areas and legal entities. These performance reviews are supplemented by quarterly performance management review meetings between the Group Chief Executive and the Group Chief Financial Officer and each of the chief executive officers of the global businesses, principal geographical areas and legal entities on an individual basis.

iii. The GEC holds a strategy and governance meeting two weeks in advance of each Board meeting.

Separate committees have been established to provide specialist oversight for matters delegated to the Group Chief Executive and senior management, in keeping with their responsibilities under the Senior Managers and Certification Regime. Some of these separate committees are dedicated sub-committees of the GEC, and some operate under individual accountability. These committees support the Group Chief Executive and GEC members in areas such as capital and liquidity, risk management, disclosure and financial reporting, restructuring and investment considerations, transformation programmes, people issues, diversity and inclusion, and talent and development.

In addition to our regional company secretaries supporting our principal subsidiaries, we have corporate governance officers supporting our global lines of business, digital business services and our larger global functions to assist in effective end-to-end governance, consistency and connectivity across the Group.

Subsidiary governance

Subsidiaries are formally designated as principal subsidiaries by approval of the Board.

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 Middle East Holdings BV	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 information flow, each principal subsidiary takes responsibility for the oversight of Group companies in its region through the subsidiary accountability framework. The guidance underpinning the framework principles defines how we escalate and cascade information and procedures between the Board, the principal subsidiary boards and their respective committees.

During 2020, a subsidiary governance review was undertaken by the Group Company Secretary and Chief Governance Officer to consider the application of the framework by the principal subsidiaries and certain material subsidiaries. This resulted in recommended changes to both the subsidiary accountability framework principles and their application. All relevant boards will consider and implement any recommendations and actions arising out of this review over the course of 2021. For further details of the subsidiary governance review, see the Nomination & Corporate Governance Committee report on page 213.

The Group Chairman interacts regularly with the chairs of the principal subsidiaries, including through the Chairman's Forum, which brings together the chairs of the principal subsidiaries and the chairs of the Group's audit, risk and remuneration committees to discuss Group-wide and regional matters. From March 2020, these meetings moved from twice a year to monthly, in response to the complex and dynamic environment. The Group Chairman hosted nine Chairman's Forums, which were also attended by relevant executive management, to cover sessions on strategy, the economy, regulatory matters, cyber risk and resilience, implementation of the subsidiary accountability framework and corporate governance.

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, which are held several times a year. The chairs of the principal subsidiaries' committees are invited to attend the relevant forums to raise and discuss current and future global issues, including regulatory priorities in each of the regions.

Board members attend principal subsidiary meetings as guests from time to time. Similarly, principal subsidiary directors are invited to attend committee meetings at Group level, where relevant.

Board activities during 2020

During 2020, the Board focused on resetting the strategic direction, supporting the Group Chief Executive and overseeing performance and risk. It considered performance against financial and other strategic objectives, key business challenges, emerging risks, business development, investor relations and the Group's relationships with its stakeholders. The end-to-end governance framework facilitated discussion on strategy and performance by each of the global businesses and across the principal geographical areas, which enabled the Board to support executive management with its delivery of the Group's strategy.

The Board's key areas of focus in 2020 are set out by theme below.

Strategy and business performance

In February 2020, the Group's strategic review and associated transformation programme was announced. This aimed to reshape underperforming businesses, simplify the organisation and reduce costs, to position the Group to increase returns for investors, create capacity for future investment and build a sustainable platform for growth.

In contrast to 2019 when the Board held two dedicated strategy sessions, given the evolving external landscape during 2020, the Board engaged in ongoing dialogue with management throughout the year to progress development of the Group strategy. As part of the strategy review, the Board considered organic and inorganic opportunities to grow and restructure the business, as well as disposal options.

The Board announced its new climate statement with the Group's ambition to align financed emissions to net zero by 2050 and become net zero for its own operations and supply chain by 2030, its aim to support clients on the road to a net zero carbon economy and a focus on sustainable finance opportunities. For further details of our new climate ambitions, see page 44.

The Board received external insights on topics such as the economic implications of the Covid-19 outbreak and ongoing geopolitical issues at regular intervals throughout the year.

Financial decisions

The Board approved key financial decisions throughout the year and approved the *Annual Report and Accounts 2019*, the *Interim Report 2020* and the first quarter and the third quarter *Earnings Releases*.

The Board approved the annual operating plan for 2020 at the start of 2020 and since 31 December 2020 has approved the annual operating plan for 2021. The Board monitored the Group's performance against the approved 2020 annual operating plan, as well as the operating plans of each of the global businesses. The Board also approved the renewal of the debt issuance programme.

On 31 March 2020, HSBC announced that, in response to a written request from the Bank of England through the UK's Prudential Regulation Authority ('PRA'), the Board had cancelled the fourth interim dividend for 2019. Similar requests were also made to other UK incorporated banking groups. We also announced that until the end of 2020 we would make no quarterly or interim dividend payments or accruals in respect of ordinary shares. For further details of the dividend cancellation, see page 256 and our section 172 statement on page 22.

In December 2020, the PRA announced a temporary approach to shareholder distributions for 2020 in which it set out a framework for Board decisions on dividends. After considering the requirements of the temporary approach, on 23 February 2021 the Board announced an interim dividend for 2020 of $0.15 per ordinary share.

The Board has adopted a policy designed to provide sustainable dividends going forward. We intend to transition towards a target payout ratio of between 40% and 55% of reported earnings per ordinary share ('EPS') for 2022 onwards, with the flexibility to adjust EPS for non-cash significant items such as goodwill or intangibles impairments. The Board believes this payout ratio approach will allow for a good level of income to shareholders and a progressive dividend, assuming good levels of economic and earnings growth.

The Group will not be paying quarterly dividends during 2021 but will consider whether to announce an interim dividend at the 2021 half-year results in August. The Group will review whether to revert to paying quarterly dividends at or ahead of its 2021 results announcement in February 2022. The 2020 interim dividend will be paid in cash with no scrip alternative. The Group has decided to discontinue the scrip dividend option as it is dilutive, including to dividend per share progression over time.

The dividend policy could be supplemented by buy-backs or special dividends, over time and not in the near term, should the Group find itself in an excess capital position absent compelling investment opportunities to deploy that excess.

Risk, regulatory and legal considerations

The Board, advised by the Group Risk Committee, promotes a strong risk governance culture that shapes the Group's risk appetite and supports the maintenance of a strong risk management framework, giving consideration to the measurement, evaluation, acceptance and management of risks, including emerging risks.

The Board considered the Group's approach to risk including its regulatory obligations. A number of key frameworks, control documents, core processes and legal responsibilities were also reviewed and approved as required. These included:

- the Group's risk appetite framework and risk appetite statement;
- the individual liquidity adequacy assessment process;
- the individual capital adequacy assessment process;
- the Group's obligations under the Modern Slavery Act and approval of the Modern Slavery Act statement;
- stress testing and capabilities required to meet the PRA's resolvability assessment framework;
- the revised terms of reference for the Board and Board committees; and
- delegations of authority.

The Board also reviewed and monitored the implications of geopolitical developments during the year including US-China relations and the trade talks between the UK and the EU following the UK's departure, including no-deal contingency planning.

Technology

Throughout the year, the Board received regular updates on technology from the Group Chief Operating Officer, including the refreshed technology strategy and restructuring of the technology leadership function.

The newly appointed non-executive Directors with deep technology experience have worked in collaboration with the Group Chief Operating Officer to enhance the governance of technology.

The Board received technology training and educational sessions from both internal and external subject matter experts to understand further the evolving technology landscape.

People and culture

The Board continued to spend time discussing people and culture-related topics. The Group Chief Executive led discussions on the development of a new people strategy to support the Group's growth and transformation.

During the year, the Board shaped the revision of the Group's purpose and values statement, which was approved in December 2020. A sub-group of the Board was created to assist the process. It met regularly with management to provide support, guidance and constructive challenge, seeking to ensure the revised purpose and values remained aligned with the Group's culture and future strategy. For further details of how stakeholder engagement was used by the Board in setting the revised purpose and values, see the section 172 statement on page 22.

Governance

The Board continued to oversee the governance, smooth operation and oversight of the Group and its principal and material subsidiaries. During 2020, it undertook a review of subsidiary governance. For further details of the review and subsequent actions, see page 208.

Succession planning was considered by the Board following a thorough review at the Nomination & Corporate Governance Committee. During the year, Kathleen Casey retired as independent non-executive Director and Sir Jonathan Symonds retired as Deputy Group Chairman, Senior Independent Director and the Chair of the Group Audit Committee. The Board appointed David Nish in the role of Senior Independent Director and Chair of the Group Audit Committee, and appointed James Forese, Steven Guggenheimer and Eileen Murray as independent non-executive Directors. The Board, supported by the Nomination & Corporate Governance Committee, will continue to review the skills and experience of the Board as a whole to ensure that it comprises the relevant skills, experiences and competencies to discharge its responsibilities effectively.

For further details of the changes to the Board, see the Nomination & Corporate Governance Committee report on page 213.

The Board monitored its compliance with the UK Corporate Governance Code and the Companies Act 2006 throughout the year.

Workforce engagement

The Board reaffirmed, in accordance with the UK Corporate Governance Code, that it would use 'alternative arrangements' in approaching workforce engagement. This flexible method allowed all non-executive Directors to have direct engagement across a wide network of employees in multiple geographies. The virtual working environment during the Covid-19 outbreak enabled more employees to participate in various workforce engagement activities. The programme of activities used a variety of interaction styles: more bespoke sessions with smaller groups; formal presentations; Q&A opportunities; and sessions to facilitate engagement across a breadth of experience and seniority. This enabled open dialogue and two-way discussions between non-executive Directors and employees. Non-executive Directors met with:

- employees of the innovation teams in Wealth and Personal Banking, Commercial Banking and Global Banking and Markets where discussions focused on bespoke business-specific matters;
- representatives of global employee resource groups where wide-ranging issues were discussed such as employee sentiment;
- leaders and talent from Digital Business Services at an employee Exchange session; and
- participants in the Asia talent programme.

The Board received formal updates from the Group Chief Executive and the Group Chief Human Resources Officer on employee views and sentiment. These include results of employee engagement surveys, benchmarked data, and additional surveys to understand well-being throughout the Covid-19 outbreak. The Chairman's Forum meetings also discussed employee feedback from the Group's subsidiaries.

As the Board considered the Group's strategy and strategic initiatives throughout 2020, themes emerged that directly impacted the workforce. These helped shape subsequent workforce engagement sessions. These sessions continue to give the Board valuable insight on employee perspectives when reviewing proposals. For further details of how the Board considered the views of employees and other stakeholders, see the section 172 statement on page 22.

The Board looks forward to continuing its workforce engagement programme and holding in-person sessions when possible in 2021.

Board activities in 2020

Main topic	Sub-topic	Meetings at which topics were discussed[1]										
		Jan	Feb	Mar	Apr	May	Jun	Jul	Sep	Oct	Nov	Dec
Strategy	Group strategy	●	●	○	●	●	●	●	●	●	●	●
	Regional strategy/Business line strategy	●	○	○	○	●	●	●	●	○	●	○
	Environmental, social, governance	○	○	○	○	●	●	○	●	●	○	○
Business and financial performance	Region/Business line	●	●	○	●	●	●	●	●	●	●	●
	Financial performance	●	●	○	●	●	○	●	●	●	○	●
Financial	Results and accounts	●	●	○	●	○	○	●	○	●	○	●
	Dividends	●	●	●	●	○	○	●	○	●	●	●
	Group annual operating plan	●	●	○	●	○	○	●	○	○	○	●
Risk	Risk function	●	●	○	●	●	○	●	●	●	○	●
	Risk appetite	○	●	○	○	●	○	●	○	○	○	●
	Capital and liquidity adequacy	●	●	○	●	●	○	●	●	○	○	●
Regulatory	Regulatory matters (including resolvability assessment framework)	○	●	●	●	●	●	●	●	○	○	●
	Regulatory matters with regulators in attendance[2]	○	●	○	○	○	○	●	●	○	○	○
External	External insights	○	○	○	●	○	○	●	○	○	○	●
Technology	Strategic and operational	●	●	○	○	●	●	●	●	●	○	●
People and culture	Purpose, values and engagement	○	●	○	○	●	○	●	●	●	○	●
Governance	Subsidiary governance framework	○	●	○	○	○	○	●	○	○	○	●
	Policies and terms of reference	○	●	○	○	●	○	●	●	○	○	●
	Board/committee effectiveness	○	●	○	○	○	○	○	○	○	○	●
	Appointment and succession	●	●	●	○	●	●	○	●	○	●	○

1 *No formal Board meetings were held during August 2020.*
2 *Meetings attended by members of the Financial Conduct Authority, Prudential Regulation Authority, Monetary Authority of Singapore, Hong Kong Monetary Authority.*

Board and committee effectiveness, performance and accountability

The Board and its committees are committed to regular, independent evaluation of their effectiveness at least once every three years.

Following the externally facilitated review of the Board and committee effectiveness in 2019, conducted by the external service provider Dr Tracy Long of Boardroom Review Limited, the Nomination & Corporate Governance Committee again invited Dr Long to support the Board with its annual evaluation. She was invited to conduct a follow-up review on the Board's progress against the findings and recommendations from her 2019 report, and more broadly on the effectiveness of the Board's operations. Dr Long is independent and has no other connection to the Group or any individual Director.

This external review was complemented by a review of the Board committees led by the Group Company Secretary and Chief Governance Officer. Details of the Board committees' effectiveness reviews, key findings and recommendations can be found in the respective committee reports on pages 213 to 232.

Dr Long acknowledged the progress that the Board had made in respect of her 2019 recommendations, with her 2020 review again focusing on the main themes from the previous review. These were: leadership, shared perspective, culture, end-to-end governance and future thinking. Qualitative feedback was gathered from one-to-one interviews held with members of the Board and regular Board attendees.

At the December Board meeting, the key findings presented were:

- a strong focus on vision, strategy, and balancing short-term and long-term objectives;
- a culture of collegiality and inclusion with positive team dynamics and healthy dialogue;
- an open and transparent communication between the Board and management and the boards of the principal subsidiaries, a shared perspective on strategy and risk between the Board and management, with a focus on clarity of objectives;
- a clear focus on operational resilience and support for clients, continuous Board and employee communications, attention to employee well-being, and documented lessons learned;
- a clear focus on priorities, with sessions on current and dynamic topics as required; and
- a strong link between culture and remuneration.

Following Dr Long's final report, the Group Chairman led a Board discussion in January 2021, at which the Board agreed the actions and priorities to be implemented, which will be monitored and addressed on an ongoing basis. Progress against these actions will be included in the *Annual Report and Accounts 2021.*

The following table outlines the main findings from the 2019 and 2020 reviews, progress against the 2019 findings and the actions agreed by the Board to address the areas that were identified as requiring improvement.

During 2020, a review of the Group Chairman's performance was led by the Senior Independent Director in consultation with the other independent non-executive Directors. Non-executive Directors also undergo regular individual reviews with the Group Chairman. The reviews confirmed that the Group Chairman and each Director were effective and had met their time commitments during the year.

The review of executive Directors' performance, which helps determine the level of variable pay they receive each year, is contained in the Directors' remuneration report on page 240.

Summary of Board effectiveness recommendations and actions:

	Recommendation from the 2019 and 2020 evaluations	Progress against 2019 recommendations	Agreed actions for 2020 recommendations
Leadership	2019 • Continue to provide strong leadership through a culture of collaboration, transparency, open communication and cooperation. 2020 • Continue to focus on Board succession planning, building on the progress made during 2020 to facilitate and manage succession for Board and committee positions, cognisant of diversity in all aspects and making full use of external advisers and skills matrix analysis. • Embed executive succession so that it translates into a stronger, more diversified talent pool for future senior leadership.	The Group Chairman enhanced his communication activities with the Board and executive management during 2020. Following the appointment of the new Group Chief Executive, the Group Chairman established a Board Oversight Sub-Group to engage further with management and provide a sounding board.	The Nomination & Corporate Governance Committee will allocate additional time for discussion and debate of external candidates for non-executive Director succession and the internal and external talent pool for senior management roles including executive Directors.
Shared perspective	2019 • Build on the shared perspective by ensuring that the Board agenda allows sufficient time and visibility of longer-term strategic perspectives aligned to its appetite for business risk. 2020 • Optimise use of Board information to enhance testing of the effectiveness of the strategic and business plans with reference to the evolving external factors and competitive landscape across its key markets.	The Board adapted the Group operating rhythm and increased the frequency of meetings throughout the Covid-19 outbreak to provide the opportunity to reflect and act in real-time on the evolving external factors.	The Board will continue to enhance the use of governance practices, such as the Board Oversight Sub-Group and the Group operating rhythm. It will also continue to use Board committees to underpin and deliver effective decision making.
Culture	2019 • 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. 2020 • Continue to review and determine the culture and key behaviours required to support the delivery of the revised strategy with a clear focus on pace and execution.	Alongside the strategic review, the Board oversaw work on refreshing the Group's purpose and values, driving a resetting of the culture to deliver the strategy.	The Group Chairman and Group Chief Executive will monitor progress of strategic decision making at pace. Increased insight into organisational cultural indicators provided to the Board will support delivering the desired organisational culture in line with strategy, purpose and values.
End-to-end governance	2019 • Maintain focus on improving the quality of information and increased communication channels with subsidiaries and other stakeholders, including the voice of employees.	Communications with the principal subsidiary chairs was increased by holding monthly Chairman's Forums for most of the year. The Board continued to engage with key investors and regulators, with some of the key regulators attending a session with the Board. There were additional opportunities for employees to engage throughout the year given the extreme circumstances brought about by the Covid-19 outbreak.	
Future thinking	2019 • Continue to develop the Board agenda to provide focus on emerging issues. 2020 • Maintain and evolve good quality papers and presentations to the Board to continue providing insight and supporting informed decision making.	The Group Chairman, Group Chief Executive and Group Company Secretary and Chief Governance Officer met regularly throughout the year to plan Board meeting agendas to focus more effectively on emerging matters and external developments.	The Group Chairman and Group Chief Executive will sponsor a project to review Board reporting in 2021.

Board committees

Nomination & Corporate Governance Committee

"The Committee's priorities in 2021 will continue to be composition, succession and development of the Board, as well as efforts to enhance the Group's diversity, talent and bench strength for key executive positions."

Dear Shareholder

It has been a busy year for the Nomination & Corporate Governance Committee. This report provides an overview of the work of the Committee and its activities during the year.

Priorities during 2020

Succession planning for both the Board and our senior executive team remained a critical focus of the Committee in line with its responsibilities. In addition to the appointment of Noel as Group Chief Executive, we appointed three new independent non-executive Directors during the year. Details of the appointments are set out below.

In line with our strategic focus on Asia, we considered proposals from management on ways to improve how we support and develop our talent under the Asia talent programme. Asian representation on the Board remains of critical importance, given the benefits that having members with deep knowledge and insight into Asian culture and business practices can bring to our discussions as a Board.

Subsidiary governance has also been an area of focus for the Committee, and we have made great progress in this regard during the past couple of years. The Subsidiary Governance Review, which is summarised later in this report, has demonstrated the progress made while acknowledging there is more to do to support our ambition of achieving world-class governance across the Group.

Focus for 2021

The Committee's priorities in 2021 will continue to be composition, succession and development of the Board, as well as efforts to enhance the Group's diversity, talent and bench strength for key executive positions. In developing our talent, the Committee will continue to focus on the promotion of diverse candidates to ensure that the Group Executive Committee and other senior management are representative of the customers, communities and markets in which we operate.

As our strategy develops, we know that the skills and capabilities we require will evolve and the Committee has a key role to play.

Mark E Tucker

Chair

Nomination & Corporate Governance Committee

23 February 2021

Membership

	Member since	Meeting attendance in 2020
Mark Tucker (Chair)	**Oct 2017**	**9/9**
Kathleen Casey[1]	**Apr 2018**	**4/4**
Laura Cha	**May 2014**	**9/9**
Henri de Castries	**Apr 2018**	**9/9**
James Forese	**May 2020**	**5/5**
Steven Guggenheimer	**May 2020**	**5/5**
Irene Lee	**Apr 2018**	**9/9**
José Antonio Meade Kuribreña	**Apr 2019**	**9/9**
Eileen Murray[2]	**Jul 2020**	**3/4**
Heidi Miller	**Apr 2018**	**9/9**
David Nish	**Apr 2018**	**9/9**
Jackson Tai	**Apr 2018**	**9/9**
Pauline van der Meer Mohr	**Apr 2016**	**9/9**
Sir Jonathan Symonds[1]	**Apr 2017**	**3/3**

1 Sir Jonathan Symonds stepped down from the Board on 18 February 2020. Kathleen Casey stepped down from the Board on 24 April 2020.

2 Eileen Murray was unable to attend one Committee meeting owing to a prior commitment made before her appointment to the Board

Group Chief Executive succession

The choice of Group Chief Executive is a matter of significance, and it was therefore important that we allowed ourselves the time to fully assess our options before arriving at our decision, given the potential ramifications on the future success of the Group and our stakeholders.

We conducted a thorough and robust search process with the support of an external search partner, Egon Zehnder, to identify the new Group Chief Executive. The Committee was delighted to have been able to source an internal candidate, in Noel Quinn, and believe that we identified the best candidate for the role and for the Group. Further information on Noel's appointment is set out in our section 172 statement on page 22. Egon Zehnder provides assistance with senior recruitment at HSBC. It has no other connection with the Group or members of the Board.

Following Noel's appointment on a permanent basis in March 2020, the Committee agreed a comprehensive induction and development plan to best support him to succeed in leading the Group through the various challenges we face. The Committee monitored this throughout the year, and will continue to support Noel and his executive team in the delivery of our strategic and business priorities.

Board composition

The composition of both the Board and its Committee continued to be a key focus during 2020, with progress made in ensuring that the Board possesses the necessary expertise to oversee, support and monitor management performance based on the longer-term strategy and developments in the external environment.

In James Forese, Steven Guggenheimer and Eileen Murray, the Board has added deep experience in the areas of banking, technology and operations, which will remain critical to the Board's discussions in the coming years. Further details on skills and previous experience are set out in the Board biographies on pages 198 to 201.

Russell Reynolds Associates supported the Board in identifying prospective non-executive Director candidates. It has also supported the Committee and the management team in senior executive succession planning, as part of an integrated approach to talent identification, assessment and development during 2020. Russell Reynolds also assists with senior recruitment at HSBC. They have no other connection with the Group or members of the Board.

We refreshed our Board skills matrix in recognition of the changing context in which the Group is now operating and the strategic priorities. The revised skills matrix places greater emphasis on the need for competencies in areas such as transformation, ESG and climate given the Group's ambitions in these areas. The skills matrix will be a key tool in ensuring that the Board has the necessary range of skills and experience to discharge its responsibilities, oversee management and respond to emerging trends.

The Board remains committed to increasing its diversity, and ensuring that it is reflective of the markets and societies in which we serve.

Board changes

There have been a number of changes to the Board during the past year. In addition to the appointment of the three new non-executive Directors referred to above, in February 2020, we saw the departure of both Sir Jonathan Symonds and Kathleen Casey during 2020. David Nish was appointed in the role of Senior Independent Director and Chair of the Group Audit Committee in place of Sir Jonathan Symonds.

Laura Cha will retire from the Board at the conclusion of our 2021 AGM at the end of May.

As mentioned earlier in the report, Dame Carolyn Fairbairn will join the Board on 1 September 2021. We are in the process of concluding a search for suitable candidates to join and further strengthen the expertise and experience on the Board and its committees.

We have also considered our committee membership and as a result confirm that David Nish will step down from the Group Remuneration Committee following the publication of the *Annual Report* and *Accounts* 2020. David kindly agreed to remain a member throughout 2020 following his appointment as Senior Independent Director and GAC Chair in February 2020 to provide a strong link through all committees while new Board members were onboarded.

Senior executive succession and development

Following Noel's appointment as Group Chief Executive on an interim basis in August 2019, he took steps to refresh the composition of the then Group Management Board and repositioned this as the Group Executive Committee. This included the appointment of new incumbents for seven roles, meaning that we actioned a significant number of our succession plans for our most senior executive positions.

The Committee has therefore focused on rebuilding this bench strength during 2020 to ensure that we have a strong cohort of potential future leaders of HSBC. We have worked in partnership with Noel and our Group Chief Human Resources Officer to support an integrated approach to our assessment, development and external market benchmarking of executive talent.

The refreshed Group Executive Committee succession plan, which we discussed and approved at our meeting in December 2020, reflects the changing shape of the Group and involves greater diversity, in particular with regard to gender and ethnicity.

In connection with this, and to ensure we support and develop talent from the Group's key region, the Committee received an update on the Asia talent programme. This programme involves approximately 1,000 employees of high potential talent in the region and aims to support their development and progression both within the region and across the broader Group.

Committee evaluation

The annual review of the effectiveness of the Board committees, including the Committee, was internally facilitated for 2020.

Overall the review concluded that the Committee continued to operate effectively. The review made certain recommendations for improvement, in particular regarding the time allocated for discussion of key items to ensure that the Committee has sufficient opportunity to discuss topics such as senior executive succession and development in the required depth. The Committee has considered and discussed the outcomes of the evaluation and accepts the findings.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2020.

Subsidiary governance review

Following the implementation of the subsidiary accountability framework in 2019, during 2020 the Committee commissioned a governance review of the Group's seven principal subsidiaries, plus three material subsidiaries in the form of Hang Seng Bank, HSBC Global Asset Management and HSBC Private Bank (Suisse).

The review was led by our Group Company Secretary and Chief Governance Officer and focused on:

- Board size, skills, tenure and fees;
- governance support; and
- the relationship between the Group and its subsidiaries.

Good boardroom practice and adherence to our Group governance expectations, including under the subsidiary accountability framework, were observed in the course of the review.

A number of recommendations were identified to raise the standard and ensure consistent application of governance across the organisation, and to further improve the transparency and engagement between the Group and its subsidiaries. These included:

- Subsidiary accountability framework: a review and update to the principles under the subsidiary accountability framework to clarify and provide greater guidance on the Group's expectations;
- Board composition, size and independence: clarification of the Group's expectations on the size, composition and independence of subsidiary boards and length of board tenure, to encourage proactive refreshment of subsidiary board membership. A number of our longer-serving subsidiary Directors have announced their retirement from the Group as a result of this review; and
- Board reporting and management information: the need for greater consistency in the quality of reporting and management information, with work underway to ensure that the Board and its committees, as well as individuals on subsidiary boards and other senior governance forums, receive the information they require to make informed decisions.

Given the success and strong support that the review received at both Group and subsidiary level, including the Group Executive Committee, it has been agreed that a review of our governance practices in our global businesses will be undertaken in 2021.

Governance

Our decision to create the Chief Governance Officer role in 2019 was in recognition of the significance the Board assigns to the governance agenda and the strategic importance of having best-in-class governance at HSBC, including in the oversight of subsidiaries. This role is held by the Group Company Secretary, now designated as the Group Company Secretary and Chief Governance Officer, reporting to the Group Chairman.

Despite the challenges we have faced as an organisation from a business and geopolitical perspective, we have made good progress in enhancing our overall governance arrangements during 2020, in particular the areas identified as requiring improvement in our 2019 Board effectiveness review.

This has included our new governance operating rhythm, which was established to provide robust end-to-end governance and more efficient and effective governance meetings across the Board, Group Executive Committee and subsidiaries. The new Group operating rhythm has resulted in greater alignment between our Board and the Group Executive Committee, and has driven the sequencing of meetings to allow for our subsidiaries and global business to have input on key matters prior to discussion and approval at the Board. This has been particularly pertinent during 2020, given the central role that our subsidiaries hold in developing and executing our strategic priorities.

In line with the Board's commitment at the commencement of the UK Corporate Governance Code 2018, the Committee reviewed the Board's choice of an alternative mechanism to engage with and understand the views of the wider workforce with reference to developing market practice. During 2020, the Committee confirmed that it remained confident that our preferred mechanism of 'alternative arrangements' remained effective and believed that this was most appropriate for an organisation of our scale and geographical diversity. Engagement with the workforce will continue to be a priority for the Board in 2021. Further details on the arrangements we have in place to facilitate workforce engagement can be found on page 210.

Diversity

The Board diversity policy sets out our approach to achieving our diversity ambitions, and helps to ensure that diversity and inclusion factors are taken into account in succession planning.

In line with our ongoing commitment to diversity, we reviewed our Board diversity policy during 2020. This review included consideration of developments in best practice as well as regulatory expectations on board diversity, including those outlined by the PRA.

A number of minor updates were made to the characteristics that the Board will take into account when considering candidates for future appointment as Directors. These included adding social backgrounds to the Board diversity policy as a factor for consideration, and making amendments to emphasise the link between diversity of thought with risk avoidance and improved decision making. The revised Board diversity policy is available at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

Our recent non-executive Director searches have prioritised diversity both in terms of gender and representation from those of Asia-Pacific heritage. These have been identified as areas where we needed to strengthen in anticipation of retirements from the Board in the coming years.

At the year-end, at 35% (five out of 14), our Board gender diversity met the Hampton-Alexander Review target of 33% female representation by the end of 2020. We have also met and exceeded the Parker Review targets of at least one Director from an ethnic minority background by 2021, with four members of our Board self-identifying as 'Directors of colour' in line with the definition set by Parker.

The Board is also extremely focused on diversity across the wider organisation, and believes that this is a critical component of

HSBC's future success. Further details on activities to improve diversity across senior management and the wider workforce, together with representation statistics, can be found on pages 64 to 65.

Independence of non-executive Directors

The Committee has delegated authority from the Board in relation to the assessment of the independence of non-executive Directors.

In accordance with the UK and Hong Kong Corporate Governance Codes, the Committee has reviewed and confirmed that all non-executive Directors who have submitted themselves for election and re-election at the AGM are considered to be independent. This conclusion was reached after consideration of all relevant circumstances that are likely to impair, or could appear to impair, independence.

Laura Cha, who joined the Board in 2011, will not be standing for re-election at the 2021 AGM. The Committee determined that Laura, notwithstanding her length of service, continues to be independent when taking into consideration all other relevant circumstances that are likely to impair, or could appear to impair, independence and that she will continue to be independent up to the date of the 2021 AGM when she will retire from the Board.

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.

Matters considered during 2020

	Jan	Feb	Apr	May	Jul	Sep	Dec
Board composition and succession							
Board composition, including succession planning and skills matrices	●	●	●	○	○	●	●
Approval of diversity and inclusion policy	○	○	●	○	○	○	○
Approval of conflicts of interest policy	○	○	○	○	○	○	●
Executive talent and development							
Senior executive succession	○	●	●	●	●	●	●
Approval of executive succession plans	○	○	○	○	○	○	●
Talent programmes	○	○	●	○	○	○	○
Governance							
Board and committee evaluation	○	○	●	●	○	○	●
Subsidiary governance	○	○	○	○	●	○	○
Subsidiary and executive appointments	●	●	●	●	●	●	●

Appointment process – assessment of new non-executive Directors

Step 1	Step 2	Step 3	Step 4	Step 5
The Committee agreed the desired criteria sought in the candidates for appointment to the Board. An external search partner was engaged.	The Committee considered a long-list of candidates and agreed which should be prioritised. Relevant candidates were approached by the external search partner to understand their interest.	Meetings were arranged between members of the Committee and priority non-executive Director candidates. Feedback from the non-executive Directors was discussed alongside consideration of potential conflicts and other matters identified through due diligence.	The Committee recommended the appointment of the non-executive Director to the Holdings Board for approval, subject to completion of outstanding due diligence.	Outstanding due diligence and associated procedures completed prior to announcement of appointment. Director onboarding and induction pack issued and completed.

Group Audit Committee

"The Committee spent substantial time in understanding and assessing the effect of the Covid-19 outbreak on expected credit losses, the Group-wide transformation programme and other related accounting judgements and disclosures."

Dear Shareholder

I am pleased to present my first report to you as Chair of the Group Audit Committee ('GAC'). The Committee had a busy year, holding 13 meetings. This report sets out some of the issues considered during 2020.

The Committee has strong, but diverse, financial services experience. To strengthen our skill set further, we welcomed Pauline van der Meer Mohr, James Forese and Eileen Murray as new members. Sir Jonathan Symonds and Kathleen Casey stepped down during the year and I would like to thank them for their insightful and significant contributions to the work of the GAC.

The Committee spent substantial time in understanding and assessing the effect of the Covid-19 outbreak on expected credit losses, the Group-wide transformation programme, the impact of regulatory change on the control environment, and other related accounting judgements and disclosures.

Given the Committee's role in relation to whistleblowing I regularly met with the Group Chief Compliance Officer and the Group Head of Whistleblowing Oversight to discuss material whistleblowing cases, enhancements to whistleblowing arrangements and plans for periodic updates to the Committee.

To develop a better understanding of the key issues and challenges at the local level, I attended a number of principal subsidiary audit committee meetings throughout the Group. These meetings were complemented by regular Audit and Risk Committee Chairs' Forums throughout the year to ensure alignment of priorities and to strengthen our relationship with the principal subsidiaries.

The Committee received regular updates from the Group Head of Audit on the progress against the audit plan. During the year the audit plan was adjusted in response to new risks arising from the Covid-19 outbreak and assurance work in relation to major change programmes throughout the Group.

Our external auditor, PricewaterhouseCoopers LLP ('PwC'), has now completed its sixth audit. PwC continues to provide robust challenge to management and provide sound independent advice to the Committee on specific financial reporting judgements and the control environment.

An internal evaluation concluded that the Committee continued to operate effectively in 2020, and made certain recommendations for continual improvement.

David Nish

Chair, Group Audit Committee, 23 February 2021

Membership

	Member since	Meeting attendance in 2020
David Nish (Chair)	**May 2016**	**13/13**
Kathleen Casey[1]	**Mar 2014**	**5/5**
James Forese	**May 2020**	**7/7**
Eileen Murray[2]	**Jul 2020**	**5/6**
Sir Jonathan Symonds[1]	**Sep 2014**	**3/3**
Jackson Tai	**Dec 2018**	**13/13**
Pauline van der Meer Mohr	**Apr 2020**	**10/10**

1 *Sir Jonathan Symonds stepped down from the Board on 18 February 2020. Kathleen Casey stepped down from the Board on 24 April 2020.*

2 *Eileen Murray was unable to attend a meeting in July 2020 due to a prior commitment made before her appointment.*

Key responsibilities

The Committee's key responsibilities include:

- monitoring and assessing 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;
- reviewing the effectiveness of, and ensuring that management has appropriate internal controls over, financial reporting;
- reviewing and monitoring the relationship with the external auditor and oversees its appointment, tenure, rotation, remuneration, independence and engagement for non-audit services; and
- overseeing the work of Global Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.

Committee governance

The Committee keeps the Board informed and advises 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 Executive, Group Chief Financial Officer, Group Head of Finance, Group Chief Accounting Officer, Group Head of Audit, Group Chief Risk Officer 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, Global Internal Audit and the external auditor to discuss agenda planning and specific issues as they arose during the year outside the formal Committee process. The Committee also regularly met separately with the Group Chief Legal Officer, internal and external auditors and other senior management to discuss matters in private.

The Committee Secretary regularly met with the Chair to ensure the Committee fulfilled its governance responsibilities and to consider input from stakeholders when finalising meeting agendas, tracking progress on actions and Committee priorities.

Meetings of the Committee usually take place a couple of days before the Board meeting to allow the Committee to report its findings and recommendations in a timely and orderly manner. This is done through the Chair who comments on matters of particular relevance and the Board receives copies of the Committee agenda and minutes of meetings.

Matters considered during 2020

	Jan	Feb	Apr	Jun	Jul	Sep	Oct	Dec
Reporting								
Financial reporting matters including: – Review of financial statements, ensuring that disclosures are fair, balanced and understandable – Significant accounting judgements – Going concern assumptions and viability statement – Supplementary regulatory information and the *ESG Update*	●	●	●	●	●	●	●	●
Regulatory reporting-related matters	●	●	●	●	○	●	○	●
Certificates from principal subsidiary audit committees	○	●	○	○	●	○	○	○
Control environment								
Review of deficiencies and effectiveness of internal financial controls	●	●	●	●	●	●	●	●
Internal audit								
Reports from Global Internal Audit	●	●	●	●	●	○	●	●
Annual audit plan, independence and effectiveness	●	○	●	○	●	○	○	●
External audit								
Reports from external audit, including external audit plan	●	●	●	●	●	○	●	●
Appointment, remuneration, non-audit services and effectiveness	●	●	●	●	○	○	●	○
Compliance								
Accounting standards and critical accounting policies	●	●	○	○	○	○	○	●
Corporate governance codes and listing rules	○	●	○	○	●	○	○	○
Whistleblowing								
Whistleblowing arrangements and effectiveness	○	●	●	○	●	○	○	●

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 the Committee continues to have competence relevant to the sector in which the Group operates. The Board has determined that David Nish, Jackson Tai and Eileen Murray are all 'financial experts' for the purposes of section 407 of the Sarbanes-Oxley Act and have recent and relevant financial experience for the purposes of the UK 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 and the FCA. These included trilateral meetings involving the Group's external auditor PwC.

How the Committee discharged its responsibilities

Connectivity with principal subsidiary audit committees

During the year the GAC Chair regularly met with the chairs of the principal subsidiary audit committees and attended meetings to enable closer links and deeper understanding on judgements around key issues. In addition, there was regular interaction with committee chairs across the Group through the Audit and Risk Committee Chairs' Forum ('ARCC').

Appointments to the audit committees of the principal subsidiary audit committees were reviewed and endorsed by the GAC. The GAC Chair met with proposed new chairs prior to their appointment.

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.

Financial reporting

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

As part of its review, the GAC evaluated management's application of critical accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure these were consistent, appropriate and acceptable under the relevant financial reporting requirements. The Committee gave careful consideration to the key performance metrics related to strategic priorities and ensured that the performance and outlook statements were fair, balanced and reflected the risks and uncertainties appropriately.

During the year, the Committee received regular updates from management on the additional guidance and disclosures made in relation to the Covid-19 outbreak. The Committee considered and was satisfied with the management response to the Financial Reporting Council's ('FRC') comments on HSBC's *Annual Report and Accounts 2019* regarding goodwill impairment disclosures, and the industry-wide FRC publications, including the letter to audit committee chairs.

In conjunction with the Group Risk Committee ('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 continues to adopt the going concern basis in preparing the annual and interim financial statements. Further details can be found on page 41.

The Committee's review of the long-term viability statement and the adoption of the going concern basis factored in additional guidance issued by the FRC on financial reporting in light of the Covid-19 outbreak.

Following review and 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.

Covid-19 impact on accounting judgements

The Committee devoted significant time, including additional meetings, to the review and challenge of management's approach and analysis of IFRS 9 expected credit losses ('ECL') in light of the Covid-19 outbreak and other geopolitical events. In its review, the GAC gave due regard to the interpretation and application of additional guidelines in relation to the Covid-19 outbreak and estimating ECL that were issued by various regulators.

The Committee gave careful consideration to the measurement of ECL, in particular the key judgements and management adjustments made in relation to the forward economic guidance, underlying economic scenarios, reasonableness of the weightings and the impact on financial statements and disclosures.

There was detailed discussion on the risks to ECL models as the unprecedented nature of the pandemic meant that the severity of the economic conditions was outside the bounds of historical data and experience used to develop IFRS 9 models. The Committee challenged management on the approach to modelling ECL, specifically the use of Credit Risk judgements and invited HSBC's credit experts to present their views to the Committee.

At the request of the GAC Chair, Global Internal Audit carried out additional verification and assurance regarding the disclosures made in quarterly reporting on the range of ECL outlook and consistency of the ECL disclosures. The Group's external auditor regularly shared its views with the Committee on the reasonableness of management assumptions, given the significant changes made to the estimation of ECL due to the impact of the Covid-19 outbreak on the design, implementation and operation of ECL controls.

Other areas of significant accounting judgements requiring in-depth review due to the Covid-19 pandemic included valuation of financial instruments, goodwill impairment, hedge accounting and investment in associates. Further details can be found in the 'Principal activities and significant issues considered during 2020' table on page 220.

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 260.

In 2020 the updates provided to the Committee included the potential impacts on internal control from the Covid-19 outbreak. These impacts included both those directly relevant to operational processes and controls, such as where new or amended controls were required to administer government relief packages, and more indirect impacts such as from colleagues working under contingency arrangements. A number of additional assurance procedures were performed across the lines of defence to monitor, assess and mitigate these impacts, with results regularly reported to the Committee.

External auditor

The Group's external auditor is PwC, which has held the role for six years, and the senior audit partner is Scott Berryman who has been in the role since 2019. The Committee reviewed the external auditor's approach and strategy for the annual audit and also received regular updates on the impact on the control environment from the Covid-19 outbreak and the Group transformation programme. Principal matters discussed with PwC are set out in its report on page 267.

PwC discussed the impact from the Covid-19 outbreak on the execution and delivery of the audit and the plans to deliver the audit through remote working and mitigating actions being taken. These included accelerating aspects of planning and performing a number of areas of audit earlier to factor in expected delays due to remote working. There was also discussion on additional relevant work in relation to significant accounting judgements, such as expected credit losses, and the impact of the Covid-19 outbreak on the basis for determining materiality.

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 gave particular focus to the actions being taken by PwC in response to the findings from the HSBC effectiveness review and the PwC firm-wide Audit Quality Review by the Financial Reporting Council. PwC highlighted the continuing investment in both additional resources and new technologies to improve the quality and consistency of the audit. The Committee Chair also met the PwC engagement quality control partner for HSBC privately to discuss the continuous audit improvement actions.

The GAC received an update on the partner rotation and succession for the Group and its principal subsidiaries and the steps taken to ensure effective transitions.

The GAC monitored the policy on hiring employees or former employees of the external auditor, and there were no breaches of the policy highlighted during the year. The external auditor attended all Committee meetings and the GAC Chair maintains regular contact with the senior audit partner and his team throughout the year.

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 2020.

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. 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 as a change in auditor would have a significant impact on the organisation, including on the Global Finance function. A change would lead to disruption and an increase in operational risk given the ongoing impact from the Covid-19 pandemic and the significant strategic change underway through the Group transformation programme. In addition, the Committee is closely monitoring the consultations and proposals arising from the Competition and Market Authority's statutory audit market study, the Kingman Review of the Financial Reporting Council and the Brydon Review on the quality and effectiveness of audit on the future of the UK external audit market. The Committee will consider its audit tendering strategy in line with the outcomes of the UK audit reform and well in advance of re-tendering in 2025.

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 2021 will be proposed to shareholders at the 2021 AGM.

Non-audit services

The Committee is responsible for setting, reviewing and monitoring the appropriateness of the provision of non-audit services by the external auditor. It also applies the Group's policy on the award of non-audit services to the external auditor. During the year, GAC reviewed changes made to the Group's policy resulting from the implementation of 'The Financial Reporting Council Revised Ethical Standard 2019' (effective in 2020) and changes to internal governance. The key change in the revised standard is the introduction of a 'whitelist of services' that the principal accountant can provide. All services not prescribed in the whitelist are prohibited. 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 either approved by the GAC, or by Group Finance when acting within delegated limits and criteria set by the GAC.

The non-audit services carried out by PwC included 45 engagements approved during the year where the fees were over $100,000 but less than $1m. Global 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; 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.

Eight engagements during the year were approved where the fees exceeded $1m. These were mainly engagements required by the regulator and incremental fees related to previously approved engagements. One new engagement outside the scope of the pre-approved services related to preliminary advanced audit procedures for the adoption of IFRS 17 in 2023.

	2020	2019
Auditors' remuneration	**$m**	$m
Total fees payable	**130.2**	110.7
Fees for non-audit services	**37.3**	25.5

Global 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 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. In addition to the ongoing importance of regulatory-focused work, key risk theme categories for 2020 audit coverage were strategy, governance and culture, financial crime, conduct and compliance, financial resilience and operational resilience. In April 2020, in response to the Covid-19 outbreak, Global Internal Audit completed a risk-based review to revise the 2020 annual audit plan to create capacity for real-time audits targeted at key risks arising from the pandemic. Real-time audits provide real-time, independent ongoing observations to management responding to the Covid-19 outbreak. Issues are raised for significant observations that are not addressed in a timely manner. In addition, in response to the business update in February 2020, Global Internal Audit focused on governance over the transformation programme and performed project audit activity for selected complex and high-priority business cases.

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 2021 audit planning process includes 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 the 2021 audit work continue to be strategy, governance and culture, financial crime, conduct and compliance, financial resilience, and operational resilience. During 2021, a quarterly assessment of key risk themes will form the basis of thematic reporting and plan updates and will ultimately drive the 2022 planning process. The annual audit plan and material plan updates are approved by the GAC. Based on regular internal audit reporting to the GAC, private sessions with the Group Head of Audit, the Global Professional Practices annual assessment and quarterly Quality Assurance updates, the GAC is satisfied with the effectiveness of the Global Internal Audit function and the appropriateness of its resources.

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 2020

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 common areas of responsibility were addressed appropriately with inter-committee communication or joint discussions with the Chairs.

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. This is further complemented with significant overlap in membership of the GAC and GRC to ensure deeper understanding and informed challenge at both meetings.

During 2020, the GAC and GRC Chairs reviewed and challenged management's proposals to transition the responsibility for oversight of entity level controls from the GAC to the GRC. The Chairs considered whether there was the suitable level of management seniority for ownership of entity level controls and whether there was regular and appropriate reporting to both committees to fulfil their oversight responsibilities.

In 2020, five ARCC Forums were held with the chairs of principal and regional subsidiaries' audit and risk committees, together with senior management from these subsidiaries. The purpose of these ARCC 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. The topics discussed at the ARCC Forums can be found in the GRC report on page 226.

Three areas of joint focus for the GAC and GRC during 2020 were:

Sustainable control environment

With oversight from the GAC, the Group Executive Committee continued a programme 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.

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.

In 2020, the GAC and the GRC reviewed the risks arising from models used for the estimation of expected credit losses under IFRS 9, particularly given the economic backdrop of the Covid-19 outbreak. The committees challenged 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 2020, this included 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.

There continues to be an increased focus on the quality of regulatory reporting by the PRA and other regulators globally. The GAC will review the steps taken by management to strengthen the controls over regulatory reporting and as we strengthen our processes and controls, there may be impacts on some of our regulatory ratios.

In conjunction with the GRC, the GAC continued to oversee the progress of management's proposals and implementation of the Basel III Reforms and the Ibor transition. The GAC focused on the operational and control environment impacts from Basel III Reforms and Ibor transition on HSBC's financial reporting and interdependencies with other Group transformation programmes.

Whistleblowing and 'speak up' culture

Whistleblowing is a key element of 'speak up' culture, with the Group's whistleblowing channel, HSBC Confidential, offering a variety of ways for our people to raise whistleblowing concerns (see page 68 for further information). The GAC is responsible for the oversight of the effectiveness of the Group's whistleblowing arrangements.

The Group's Chief Compliance Officer provides periodic reporting to the GAC on the efficacy of the whistleblowing arrangements, providing an assessment of controls and detailing the results of internal audit assessments. The Committee is also briefed on culture and conduct risks and associated management actions arising from whistleblowing cases. The Chair of the GAC acts as the Group's whistleblowers' champion, with responsibility for ensuring and overseeing the integrity, independence and effectiveness of HSBC's policies and procedures on whistleblowing and the protection of whistleblowers. The Chair met with the Group Head of Whistleblowing Oversight throughout the year for briefings on material whistleblowing cases and assessments of the whistleblowing arrangements.

The Committee has requested updates on a number of key areas during 2020, including an assessment of the timeliness of whistleblowing investigations. The arrangements were subject to an internal audit review during 2020, which rated the design, control and management oversight of the arrangements as satisfactory. As part of the ongoing assessment of the end-to-end arrangements, the Committee has requested a deeper review in key markets of the employee investigation function in which the whistleblowing arrangements have a dependency. An external benchmarking assessment was presented to the GAC in December 2020. This provided an overview of the overall effectiveness of whistleblowing arrangements and investigations processes against a number of industry peers, and best practice guidance issued by external consultancy and legal firms as well as the UK charity, Protect. The assessment reflected the significant progress made during 2020 such as the implementation of a new whistleblowing platform (Navex), the enhanced global minimum standards and improvements observed in the 'speak up' culture. In addition, governance was improved with a particular focus on key emerging conduct themes to enable timely management action, and a mechanism was introduced for whistleblowers to provide feedback post-investigation. The assessment also identified further opportunities for 2021 as part of the Group's fit for the future programme with updates to be provided to the whistleblowing champion and the GAC throughout 2021.

Principal activities and significant issues considered during 2020

Areas of focus	Key issues	Conclusions and actions
Financial and regulatory reporting	**Key financial metrics and strategic priorities** The GAC considered the key judgements in relation to external reporting to track the key financial metrics and strategic priorities and to review the forecast performance and outlook.	In exercising its oversight, the Committee assessed management's assurance and preparation of external financial reporting disclosures. The Committee was particularly focused on the ongoing Covid-19-related uncertainty and how management addressed and reflected the impact of the pandemic in external reporting and disclosures. The Committee reviewed the draft external reporting disclosures and provided feedback and challenge on the top sensitive disclosures, including key financial metrics and strategic priorities to ensure HSBC was consistent and transparent in its messaging.
	Environmental, social and governance ('ESG') reporting The Committee considered management's efforts to embed and enhance ESG reporting to demonstrate strong controls, operation and governance, including key performance indicators and assurance plans.	The GAC reviewed the approach to combining the *ESG Update* into the *Annual Report and Accounts* for the 2020 reporting period. This included consideration of the steps taken by management to address findings from Global Internal Audit regarding the controls and assurance processes for ESG content. The Committee will review the steps taken by management in developing the target operating model to deliver integrated reporting in 2021.
	Regulatory reporting assurance programme The GAC monitored the progress of the regulatory reporting assurance programme to enhance the Group's regulatory reporting, impact on the control environment and oversee regulatory reviews and engagement.	The Committee reflected on the continued focus on the quality and reliability of regulatory reporting by the PRA and other regulators globally. The GAC reviewed management's efforts to strengthen and simplify the end-to-end operating model, including commissioning independent external reviews of various aspects of regulatory reporting. The Committee discussed and provided management's engagement plans with the Group's regulators, including any potential impacts on some of our regulatory ratios such as CET1 and LCR. We continue to keep the PRA and other relevant regulators informed of our progress.
Significant accounting judgements	**Expected credit losses** The measurement of expected credit losses involves significant judgements, particularly under current economic conditions. There remains an elevated degree of uncertainty over ECL estimation under current macroeconomic, political and epidemiological uncertainties. Further details are provided in the 'Covid-19 impact on accounting judgements' section of this report.	The actions taken are summarised above in the 'Covid-19 impact on accounting judgements' section of this report.

Principal activities and significant issues considered during 2020 (continued)

Areas of focus	Key issues	Conclusions and actions
Significant accounting judgements	**Long-term viability and going concern statement** During the year, the GAC has considered a wide range of information relating to present and future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 outbreak has had on HSBC's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.	In accordance with the UK and Hong Kong Corporate Governance Codes, 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.
	Goodwill and other non-financial assets impairment During the year, management tested for impairment goodwill and other non-financial assets. Key judgements in this area relate to long-term growth rates, discount factors and what cash flows to include for each cash-generating unit tested, both in terms of compliance with the accounting standards and reasonableness of the forecast. During the year, the Group recognised $1.3bn impairment in relation to non-financial assets, following which a detailed analysis of various balance sheet amounts was initiated.	The GAC received reports on management's approach to goodwill and other non-financial assets impairment testing and challenged the approach and models used. The GAC also challenged management's key judgements and considered the reasonableness of the outcomes as a sense check against the business forecasts and strategic objectives of HSBC. The GAC reviewed the results of management's detailed analysis of the balance sheet and agreed with the conclusions.
	Associates (Bank of Communications Co., Limited and The Saudi British Bank) During the year, management performed the impairment review of HSBC's investment in Bank of Communications Co., Ltd ('BoCom') and The Saudi British Bank ('SABB'). The impairment reviews are complex and require significant judgements, such as projected future cash flows, discount rate, and regulatory capital assumptions.	The GAC reviewed the judgements in relation to the impairment reviews of HSBC's investment in BoCom and SABB, including the sensitivity of the results to estimates and key assumptions such as projected future cash flows and regulatory capital assumptions. Additionally, the GAC reviewed the models' sensitivity to long-term assumptions including the continued appropriateness of the discount rates.
	Legal proceedings and regulatory matters Management has used judgement in relation to the recognition and measurement of provisions, as well as the existence of contingent liabilities for legal and regulatory matters, including, for example, 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.	The GAC received reports from management on the legal proceedings and regulatory matters that highlight the accounting judgements for matters where these are required. The matters requiring significant judgements were highlighted. The GAC has reviewed these reports and agree with the conclusions reached by management.
	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.	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.
	Valuation of financial instruments Due to the volatile market conditions in 2020, management refined its approach to valuing Group's investment portfolio. In addition, as losses were incurred on the novation of certain derivative portfolios, management considered whether fair value adjustments were required under the fair value framework. Management's analysis provided insufficient evidence to support the introduction of these adjustments in line with IFRS.	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 and agrees with the judgements applied by management.
	Tax-related judgements HSBC has recognised deferred tax assets to the extent that they are recoverable through expected future taxable profits. Significant judgement continues to be exercised in assessing the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.	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 Management's judgement is used in determining the assumptions used to calculate the Group's remediation provisions, of which the most material are PPI and a programme in relation to the collections and recoveries operations of the bank.	The GAC considered and challenged management's assumptions and the approach for estimating potential outflows relating to the calculations of the customer remediation provisions.

Principal activities and significant issues considered during 2020 (continued)

Areas of focus	Key issues	Conclusions and actions
Other accounting judgements	**Long-term asset return assumptions in PVIF** Market volatility during 2020 resulted in further review of the long-term investment assumptions used in the measurement of the present value of in-force business ('PVIF') intangible assets recorded on the balance sheet in relation to shareholder returns expected from long-term insurance contracts.	The GAC reviewed the assumptions determined by management under existing insurance governance processes, which involve significant expert judgement, and concluded that they were supportable given internal and external benchmarks and information reviewed.
	Hedge accounting Significant judgements relating to hedge accounting matters under current economic conditions include the impact of Covid-19 payment deferrals on the highly probable cash flow forecasts required by macro cash flow programmes; and whether hedge accounting relationships, where hedged items include interest rate floors and the hedging instrument does not, would be highly effective over the hedged horizon.	The GAC noted that the effect of Covid-19 payment deferrals on hedge accounting was limited and no additional actions were required. Additionally the GAC was informed about the mitigation actions management has taken to reduce the risk associated with floored hedged items, such as designating new hedge accounting relationships.
Group transformation	**Transformation and sustainable control environment** The GAC will oversee the impact on the risk and control environment from the Group transformation programme.	The Committee received regular updates on the Group transformation programme to review the impact on the risk and control environment and to oversee progress of the Group transformation programme. In these updates the Committee monitored the development of management's approach to structuring and governing the Group transformation programme and risk management processes. This oversight helped satisfy the Committee of the appropriateness of these processes and associated benefits delivery. Management kept the Committee apprised of the changes and adjustments made to the Group transformation programme in response to Covid-19, and associated impact on the financial performance. Management's updates were supplemented by significant focus and assurance work from Global Internal Audit where a dedicated team continuously monitored and reviewed the Group transformation programme. This included carrying out a number of targeted audit reviews, in addition to audits of significant programmes. These reviews focused on key elements of change management.
	Global Finance transformation The Committee reviewed the proposals for the Global Finance organisational design, the migration to Cloud and the impact on financial controls.	The Committee has oversight for the adequacy of resources and expertise, as well as succession planning for the Global Finance function. During 2020, the Committee dedicated significant time to the review and progress of the multi-year Global Finance transformation programme, with the overall objectives being to improve the control environment and customer outcomes and to leverage technology to increase overall efficiency. In particular, the Committee discussed the challenges to Global Finance operations, including financial reporting, from the Covid-19 pandemic and sought assurance that controls were in place to maintain standards and quality. The Committee reviewed and challenged the key change programmes and delivery milestones and tracked the progress of the deliverables. In particular, the Committee considered the impact from the Global Finance transformation on the Group transformation programme, regulatory change programmes and where there were interdependencies and concentrations risks through key programmes such as Finance on the Cloud. There were frequent discussions with management with input from Global Internal Audit on the impact on key risks and controls, including steps taken to mitigate these risks. Management regularly updated the Committee on the approach and plans for regulatory engagement, including follow-up on the outcomes and actions to be taken post-meetings with regulators. The Group Chief Financial Officer had private sessions with the Committee to share his perspectives on the progress of the Global Finance transformation, areas of strategic priorities and where additional focus was required. The private sessions included discussion on succession planning and resourcing and areas where GAC members could support and guide management by leveraging members' experience.
Regulatory change	**IFRS 17 'Insurance Contracts'** The Committee will oversee the transition to IFRS 17 and consider the wider strategic implications of the change on the insurance business.	Management provided an update on the final standard amendments that were issued in June 2020 and discussed the impact on the transition programme necessitated by the one-year delay to the effective date, both from a policy implementation and model build perspective. The discussions highlighted the significant uncertainty that remained in the interpretation of key areas and the working assumptions adopted by management to enable design solutions, investment in technology and data infrastructure to proceed. The Committee discussed the impact from IFRS 17 on HSBC's reported numbers in the financial statements and management will continue to consider how to appropriately apply the standard to HSBC's insurance business, as well as monitoring insurance industry developments on disclosures. Management will continue to keep the Committee updated on plans for the investor narrative, taking into account the relevant disclosure requirements applicable to HSBC, and ongoing presentation of insurance results up to the time of the transition.

Principal activities and significant issues considered during 2020 (continued)

Areas of focus	Key issues	Conclusions and actions
Regulatory change	**Basel III Reform** The GAC considered the implementation of the Basel III Reform and the impact on the capital requirements and RWA assurance. This was considered in the context of the strategy and structure of the balance sheet.	The Committee received an update on the progress and impact of the Basel III Reform programme on the Group. Management discussed the uncertainty over the final definition of the rules and the actions taken to ensure sufficient flexibility to make changes and mitigate risks from legislation being finalised at a later date. The discussion highlighted the dependencies of the Basel III Reform programme with other Group transformation programmes, in particular the dependency on adoption of the Finance on the Cloud solution and the impact on data delivery and storage. The Committee reviewed and challenged management on the findings from an audit on the programme structure, governance and the significant cost increase year on year. Management explained the actions being taken in response to the audit findings and the reasons for the increase in costs, which included delays to implementation dates caused by Covid-19.
	Interest rate benchmark replacement The financial reporting risks of interest rate benchmark transition include the potential for volatility arising from financial instruments valuation, contract modification and hedge accounting. The transitions involve significant operational complexity for financial institutions, and industry approaches to transition continue to develop.	The GAC noted management's early adoption of 'Interest Rate Benchmark Reform – Phase 2' amendments to IFRSs in relation to benchmark reform, including the disclosures necessary to support adoption of the reliefs. The Committee considered the risks and financial reporting impacts arising from the Ibor transition. Management discussed actions being taken to mitigate the risks, which included new product development and a client outreach programme to ensure readiness to migrate and explain the changes and outcomes arising from the transition to clients. Management advised about the operational challenges such as the updates to current systems and processes that were required to support the accounting for the Ibor transition and our external dependency on market and client readiness. In particular, management drew attention to the potentially material impact on hedge accounting programmes from the Ibor transition and the substantial costs and risks involved in the redocumentation of hedges. The Committee discussed the approach being taken across the industry with management and PwC and potential impacts on the control environment relevant to financial reporting from the Ibor transition.

Committee evaluation and effectiveness

The annual review of the effectiveness of the Board committees, including the GAC, was conducted internally in 2020. Overall the review concluded that the GAC continued to operate effectively, and highlighted improvements made in 2020 in relation to Committee structure and focus. The review also made certain recommendations for continuous improvement, including in relation to further enhancing the quality of information presented to the meeting through revised executive governance oversight. The Committee has considered and discussed the outcomes of the evaluation and accepts the findings.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2021.

Focus of future activities

At the beginning of each year the Committee discusses its key priorities for the year ahead. In 2021, the Committee will continue to monitor execution of the Group transformation programme and its impact on the risk and control environment. In monitoring the Group transformation programme, the Committee will consider the interdependencies between the Group transformation programme and implementation of large-scale regulatory change programmes such as Basel III Reforms, the Ibor transition and IFRS 17 'Insurance Contracts'. A major area of focus is also expected to be the GAC's engagement with the UK Government's consultation and proposals for the future of the UK external audit market.

Group Risk Committee

"Geopolitical developments, civil unrest, the UK's trade negotiation with the EU and the Covid-19 outbreak introduced new challenges for our organisation, customers and people. The Group Risk Committee responded by working closely with management to understand and appropriately challenge scenario stress testing, early warning indicators and management of information."

Dear Shareholder

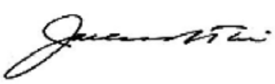
I am pleased to present the Group Risk Committee ('GRC') report.

Geopolitical developments, civil unrest in Hong Kong, the UK's trade negotiations with the EU and the Covid-19 outbreak introduced new challenges for our organisation, customers and people. The GRC responded by working closely with management to understand and appropriately challenge scenario stress testing results, early warning indicators and key management metrics. Importantly, we monitored heightened capital and liquidity risks against the prospect of greater market volatility, large customer financing needs, rapid credit deterioration and lapses in fair outcomes for our customers. We reviewed and challenged the impact of forward economic growth assumptions on our markets and credit exposures. We maintained close watch over people and operational risks arising from fatigue, the health impact of the virus, and government-imposed restrictions.

The GRC continued to strengthen its composition and skills to promote proactive risk governance. During the year we welcomed seasoned technology and operations experts Steven Guggenheimer and Eileen Murray to the GRC. We also extended deep appreciation to Sir Jonathan Symonds and Kathleen Casey for their valuable insight and contribution upon their retirement from the GRC and the Board.

The GRC convened eight formal meetings plus seven special sessions to review and challenge our most important responsibilities, including Group internal stress testing, internal liquidity adequacy assessment process ('ILAAP'), and internal capital adequacy assessment process ('ICAAP'). We also organised timely education sessions, including a full-day training on sanctions in Hong Kong for non-executive Directors and management in Asia-Pacific.

Throughout 2020, the GRC and GAC coordinated closely our respective agendas, as evident in our five jointly organised regional Audit and Risk Committee Chairs' Forums, which featured discussion on key audit and risk issues with our principal subsidiaries, ensuring alignment of priorities between the Group and its subsidiaries.



Jackson Tai
Chair
Group Risk Committee
23 February 2021

Membership

	Member since	Meeting attendance in 2020
Jackson Tai (Chair)	**Sep 2016**	**8/8**
Kathleen Casey[1]	**Jan 2020**	**3/3**
Steven Guggenheimer	**May 2020**	**4/4**
José Antonio Meade Kuribreña	**May 2019**	**8/8**
Heidi Miller	**Sep 2014**	**8/8**
Eileen Murray	**Jul 2020**	**3/3**
David Nish	**Feb 2020**	**7/7**
Sir Jonathan Symonds[1]	**Apr 2018**	**2/2**
Pauline van der Meer Mohr	**Apr 2018**	**8/8**

1 *Sir Jonathan Symonds stepped down from the Board on 18 February 2020. Kathleen Casey stepped down from the Board on 24 April 2020.*

Key responsibilities

The Group Risk Committee has overall non-executive responsibility for oversight of risk-related matters and the risks impacting the Group. The GRC's key responsibilities includes:

- advising the Board on risk appetite-related matters, and key regulatory submissions, including the ICAAP and ILAAP, as well as recovery and resolution planning;
- overseeing and advising the Board on all risk-related matters, including financial risks, non-financial risks and the effectiveness of the Group's conduct framework;
- undertaking a review and challenge of the Group's stress testing exercises; and
- reviewing the effectiveness of the Group's enterprise risk management framework and internal controls systems (other than internal financial controls overseen by the GAC).

Committee governance

In carrying out its responsibilities, the GRC is supported by the participation of senior management, including Noel Quinn who attended six GRC meetings in 2020.
The Group Chief Risk Officer, Group Chief Financial Officer, Group Head of Audit, Group Chief Compliance Officer and Global Head of Risk Strategy are standing attendees and regularly attend GRC meetings to contribute their subject matter expertise and insight. They facilitate GRC 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 also regularly meets with the Group Chief Risk Officer, the Group Head of Audit and external auditor, PwC, without management present.

The Chair also has regular meetings with members of senior management to discuss specific risk matters that arise during the year outside formal meetings. The Chair consults regularly with the Committee Secretary to ensure the GRC meets its governance responsibilities and to consider input from stakeholders when finalising meeting agendas, tracking progress on actions and Committee priorities.

Matters considered by the GRC in 2020

	Jan	Feb	Mar	Apr	May	Jun	Jul	Sep	Oct	Nov	Dec
Financial risk	○	●	●	●	●	○	●	●	○	●	○
Credit risk	○	○	○	○	●	○	●	●	○	●	○
IT and operational risk including outsourcing, third-party risk management, cyber risk	●	●	○	●	●	○	●	●	○	●	○
Model risk	●	○	○	●	○	○	○	●	○	○	○
People and conduct risk	●	●	○	○	○	○	●	●	○	●	○
Risk appetite	○	●	○	○	○	○	●	○	○	●	○
Financial crime risk	●	●	○	●	●	●	●	●	●	●	○
Regulatory compliance	○	●	○	●	○	○	●	●	○	●	●
Legal risk	●	●	○	○	○	○	●	○	○	●	○

How the GRC discharges its responsibilities

During 2020, the GRC reshaped its meeting agenda to place greater emphasis on a regular review of the Group's risk landscape and to track the management of information and desired outcomes for our most important risk areas. Each meeting now commences with a review of our enterprise risk landscape through the Group Chief Risk Officer's update of the Group risk profile followed by a comprehensive review of critical management information, led by the Group Chief Risk Officer, and supported by the Group Chief Financial Officer, Group Chief Operating Officer, Group Chief Compliance Officer and Group Human Resources Officer.

The GRC also reviewed internal and external audit reports and regular risk reports, which provided deeper reporting on the Group's risk profile and highlighted the material current and forward-looking risks and issues, such that the GRC could effectively identify any areas that required more of the GRC's attention. A summary of coverage is set out in the table above.

Throughout the year, the GRC adhered to an agenda that sought to regularly address topics and oversight responsibilities set out in the Group risk taxonomy, while being flexible to undertake informed review and appropriate challenge of timely risk issues that have economic, commercial, regulatory and reputational implications for the Group's franchise.

Three thematic risk areas are described below to illustrate the GRC's focus during the year.

Sustainable control environment

During 2020, 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. The GRC reviewed model enhancements needed as a result of changes in the economy due to the Covid-19 outbreak. The GRC also continued its review of the Group's approach to operational resilience and identified improvements from a pilot study to identify areas for further enhancements. The GRC also reviewed the effectiveness of the Group's anti-fraud controls. At the November meeting of the Committee, it was agreed the ultimate oversight for all of the Group's entity level controls move from the GAC to the GRC. This change supports the Committee's responsibility for review and oversight of the risk management culture, framework and internal control systems.

Financial risk

The GRC provided informed review and constructive challenge to the Group's regulatory submissions of ICAAP and ILAAP. It also monitored progress on the Group's liquidity risk management improvement plan, including the development of the internal liquidity metric. It reviewed work by the Global Finance function on strengthening recovery planning.

The GRC continued to maintain oversight of the Group's regulatory and internal stress testing programmes, particularly in light of the impact of the Covid-19 outbreak with specific review and challenge of the key assumptions, strategic management actions and outcomes of the principal tests conducted. Through these reviews, the GRC assessed risks 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 2020, 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 operational resilience, climate risk and sanctions. The Committee received updates on regulators' rules and guidance relating to operational resilience, which is designed to protect customers and maintain economic stability by preventing incidents leading to intolerable consumer harm, market disruption, and impact to the safety and soundness of firms. To reinforce continued emphasis and visibility on financial crime and sanctions compliance, the GRC organised a full-day training session on international sanctions early in the year in Hong Kong for our Asia-Pacific non-executive Directors and management.

The GRC also considered the PRA's latest requirements and expectations relating to evidencing of the embedding of climate risk management capabilities within regulated firms.

Activities outside formal meetings

The GRC organised a number of activities outside of its regular meeting cycle to facilitate more effective oversight of the risks impacting the Group. In particular, the GRC's formal meetings continue to be supported by training and 'walk-through' sessions to raise the GRC's understanding of the underlying domain issues, ensuring the GRC is well prepared in its informed review and constructive challenge. The chairs of principal subsidiary risk committees were also invited. Activities included, among others:

- a Directors' education session, held in October 2020, focusing on the increasingly complex international sanctions and export control landscape, including key sanctions challenges facing the Group with the imposition of new US sanctions following the US Hong Kong Autonomy Act. This education session was attended by 27 non-executive Directors from across the Group;
- a Directors' education session, held in November 2020, led by senior leaders in Group Treasury on the implementation of the internal liquidity metric, which is designed to provide an internal view of liquidity risk and to ensure the Group holds enough liquidity to meet and recover from a defined stress;
- GRC Chair's Working Sessions on a range of topics including financial crime developments, progress on FCA conduct remediation matters (May 2020), the Wealth and Personal Banking conduct programme (May 2020), progress on regulatory remediation programmes (January and December 2020), the outcomes and implications of the 2020 Group internal stress test (November 2020), and progress on the 2020 ICAAP and ILAAP submissions (November 2020); and
- three cybersecurity consultation sessions and regular updates on cyber developments such as cyber-crime, legislation and technology led by the GRC's independent cybersecurity adviser.

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 and that the risk management and internal control systems in place were operating effectively.

Throughout 2020, the GRC proactively encouraged principal subsidiary risk committee chairs to participate in regular GRC meetings and special review or learning sessions, leading to improved connectivity between the Group and principal subsidiary risk committees. In addition the GRC Chair participated in the meetings of principal subsidiary risk committees for Asia, the UK, Europe, the US, Latin America, Canada and the Middle East, with the aim of ensuring strong alignment, information sharing and connectivity between the GRC and principal subsidiaries.

Collaboration between the 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 coordination or joint meetings where appropriate. The GRC and GAC Chairs are members of both committees to further enhance connectivity, coordination and flow of information.

Audit and Risk Committee Chairs' Forum

The Audit and Risk Committee Chairs' ('ARCC') Forum meetings continue to be one of the more collaborative GRC and GAC exercises. The forum meetings promote shared risk and audit subject matter expertise, align Group and subsidiary priorities, support the subsidiary accountability framework and promote two-way connectivity between the Group and principal subsidiary risk and audit committees. The meetings are jointly hosted by the GAC and GRC Chairs and attended by members of the GAC and GRC, the Group Executive Committee (more than half of whom attended at least one meeting), several Group non-executive Directors, the chairs of principal and regional subsidiary audit and risk committees, together with non-executive Directors and senior management from those subsidiaries.

In May, the ARCC Forum provided updates through video calls with the Asia-Pacific region and a combined call with the Europe, Middle East and Americas regions. This was followed by three ARCC Forum calls for each of the Asia-Pacific, UK, Europe and Middle East, and Americas regions in September and November.

The ARCC Forums provided an important opportunity for the GRC to understand locally-specific issues and priorities with potential read-across to other areas and regions of the Group. They also served to help the GRC hear the observations, concerns and achievements from subsidiary risk and audit chairs, with a particular focus on pressing issues or concerns (such as the Covid-19 outbreak, business restructuring, or macroeconomic issues); where Group initiatives need to be recalibrated to reflect regional constraints; cross-regional dependencies; and where the Group can progress faster. In light of the Covid-19 pandemic and highly uncertain macroeconomic environment, the ARCC Forum meetings included discussion on:

- reinforcing the control environment and embedding of non-financial risk management;
- sustaining operational integrity and resilience during a Covid-19 and restructuring environment;
- need for even stronger risk appetite, credit, counterparty and conduct risk management during a Covid-19 and macroeconomic-sensitive environment;
- strengthening model risk management and our portfolio of models at the Group level and in the regions;
- subsidiaries' role and responsibilities in our Group recovery and resolvability planning in a more macroeconomic-sensitive environment; and
- understanding the perspectives and feedback from regional subsidiaries.

Focus of future activities

The GRC's focus for 2021 will include the following activities. It will:

- provide oversight of the execution risk arising from the Group transformation programme;
- oversee enhancements to our risk appetite statement so that it is more regular, forward-looking and risk responsive;
- ensure the risk appetite statement is closely linked to our strategic goals, our annual operating plan, stress testing, ILAAP and ICAAP exercises, and our recovery and resolution planning;
- monitor and appropriately challenge management's plans to manage and mitigate the impacts of geopolitical risks on our operations and portfolios in Asia, the Middle East and the rest of the world;
- monitor the impact of the Covid-19 outbreak on the Group's customer franchise as well as on the capital and liquidity risk, credit risk, market risk, people and operational risk for the Group;
- monitor continued progress in financial crime compliance, including enhancements in our transaction monitoring programme and the application of new analytical tools and applications to improve our fraud detection and prevention;
- continue to monitor developments and enhancements in the Group's management of conduct and culture, as well as people risk management;
- continue to review and challenge management's progress in developing and implementing our operational resilience strategy;
- oversee the Group's approach to climate risk management and climate risk appetite;
- review plans, jointly with the GAC, to strengthen the Group's data strategy and management so that we can better serve our customers, protect customer data as well as strengthen model risk management, credit risk management and risk appetite, including climate risk appetite; and
- track progress regularly in remediating outstanding, unresolved regulatory actions across the Group and principal subsidiaries, including progress in closing-out any regulatory consent orders or matters requiring attention.

Committee evaluation

The GRC is committed to regular, independent evaluation of its own effectiveness. During 2020, the GRC undertook an internal GRC effectiveness exercise, which concluded that the GRC continued to operate effectively and in line with regulatory requirements.

The effectiveness exercise highlighted improvements made in 2020 to anchor meetings with the regular review of the Group's risk landscape and management information. Progress made in relation to the Committee's operation and engagement with principal subsidiaries was acknowledged. The review also made certain recommendations for enhancement, including in relation to rebalancing the breadth of the GRC agenda, and increasing the use of alternative mechanisms to allow the GRC to efficiently exercise oversight of risk matters through additional education and supplementary sessions. The Committee has considered and discussed the outcomes of the evaluation and accepts the findings.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2020.

Principal activities and significant issues considered during 2020

Areas of focus	Key issues	Conclusions and actions
Risk appetite	The Group risk appetite statement defines the Group's risk appetite and tolerance thresholds and forms the basis of the first and second lines of defence's management of risks, our capacity and capabilities to support our customers, and the pursuit of the Group's strategic goals	The GRC 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. It then continued to work closely with Group Risk Strategy to enhance the 2021 risk appetite statement including a climate risk qualitative statement and quantitative measures that focus on the Group's exposure and risk profile to high transition risk sectors, as well as improvements to the suite of resilience risk metrics. The GRC also raised the importance of strengthening the granularity risk appetite statements to be forward-looking and risk-responsive at GRC meetings and at regional ARCC Forums. In the process, the GRC has reinforced the importance of stronger linkage of the risk appetite statements to the Group's annual operating plan, strategic planning, stress testing exercises, annual capital adequacy and liquidity management exercises, and to the Group's recovery and resolution planning.
Geopolitical developments and risks	Geopolitical developments and risks continue to present significant challenges for the Group's customer franchise and for the resilience of our operations.	The GRC reviewed the Group's readiness to address major geopolitical developments, including the short- and longer-term impact of civil unrest in Hong Kong and heightened trade tensions between the US and China on our Asia and global franchise, as well as our ability to maintain our high service levels in our multi-channels to serve our customers. The GRC also monitored the Group's preparedness for financial market, operational and commercial disruptions arising out of protracted UK trade negotiations with the EU.
Managing through the Covid-19 outbreak	Managing operational risk and counterparty credit risk to enable the Group's support of our customers, communities and the local economy throughout the Covid-19 outbreak.	The GRC reviewed how the Group leveraged its capital and liquidity strength, robust credit standards, and digital capabilities to assist customers during the Covid-19 outbreak and to maintain market strength. In doing so, the Committee closely assessed credit trends, economic outlook and the impact on portfolio credit quality. The GRC also reviewed the operational, reputational and conduct challenges in implementing government support schemes across different geographies and regulatory jurisdictions, including associated risks, controls and oversight.
Operational resilience	Management's operational resilience programme is being redesigned to enable our priority business services to continue to serve our customers in the event of unforeseen disruptions in our key markets.	The GRC maintained its focus on the Group's policies, programmes and practices for strengthening and prioritising our ability to test, detect, resolve and recover from unforeseen operational disruptions in our key markets. With the goal of minimising harm to our customers and to the local financial markets, the GRC continued its review of the Group's approach to operational resilience, which incorporates learnings from the Group's response to the Covid-19 outbreak across our franchise. The GRC's oversight activities included: • the review and challenge of progress on the formulation of a comprehensive operational resilience strategy including working with the Group Chief Control Officer on the programme to comply with regulatory standards for operational resilience; • the planned 'operationalisation' of critical business services and impact tolerances, and risk and control mapping to strengthen the ability to prevent, respond to, recover, and learn from operational disruptions, such as Covid-19; • the embedding of ownership with first line business and function leaders to deliver operational resilience outcomes for customers, for the Group's own safety and soundness, and to avoid disruptions to market integrity and financial stability; and • the review and challenge of management's progress in managing third-party risk in the context of an increasing reliance on technology services provided by third parties and growing regulatory scrutiny.
Technology resilience including cybersecurity and Cloud strategy	Technology resilience is the risk of unmanaged disruption to any IT system within HSBC, as a result of malicious acts, accidental actions or poor IT practice or IT system failure.	The GRC reviewed the Committee's approach to governance of technology risk and Cloud adoption, which was a high priority area under regulatory scrutiny. The GRC also continued its oversight and challenge of the Group's cybersecurity strategy and management of cyber risks.
People, conduct and culture	The Group promotes a culture that is effective in managing risk and leads to fair conduct outcomes. It seeks to actively manage the risk of adverse impact due to not having the right people with the right skills doing the right thing, including risks associated with employment practices and relations.	The GRC continued to exercise oversight in the area of people risk and employee conduct, supported by the Group Chief Human Resources Officer and Group business heads, including: • regular monitoring of 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; • informed review and challenge of the alignment of risk and reward, satisfying itself that risk and compliance objectives and outcomes were reflected in the Group variable pay pool; • discussion of the people risk issues arising due to the impact of the Covid-19 outbreak; and • the review of workplace harassment data and insights, action taken and 2020 focus areas.

Principal activities and significant issues considered during 2020 (continued)

Areas of focus	Key issues	Conclusions and actions
Climate risk	Successful delivery of HSBC's climate ambition will be determined by our ability to measure and manage all components of climate risk.	The GRC recognises the Group's regulatory commitments due in 2021 and the Group's own publicly stated climate risk targets, as well as the need to manage climate risk of the Group's existing portfolios and future business. The GRC reviewed the Group's approach to climate risk management and climate risk appetite including associated stress testing and scenario analysis.
Capital and liquidity risk including ICAAP and ILAAP	The GRC oversees the Group's management of its financial risk, particularly in the context of the challenges of the Covid-19 outbreak.	The GRC reviewed the Group's capability to track environmental and macroeconomic headwinds through early warning indicators and scenario stress testing. It also oversaw the Group's progress in developing a range of strategic management actions capable of timely execution and the development of recovery and resolution capabilities that meet PRA and local regulatory expectations. The GRC also maintained oversight of the Group's liquidity risk management with particular emphasis on the outlook, lessons learned from the Covid-19 outbreak, metric development, systems and controls, and regulatory feedback. The GRC reviewed and challenged the assessment of the Group ICAAP and ILAAP programmes and engaged with Group management in overseeing and evaluating the Group's forward-looking capital and liquidity strategies and capabilities, including the Group's liquidity risk management improvement programme. Additionally, the GRC Chairs participated in several subsidiary risk committees' review of ICAAP, leading up to final GRC review, challenge and recommendation of ICAAP to the Board.
Financial crime risk	The Group is committed to closely monitoring and managing the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity, including both internal and external fraud.	Throughout 2020, the GRC reviewed the Group's approach to managing its financial crime risk across a number of important areas. This included: • the Group's progress in enhancing its transaction monitoring framework; • the fraud landscape, particularly against heightened Covid-19 conditions, the Group's fraud risk profile and the impact of regulatory developments; and • the nature and scale of insider risk and the Group's strategies for managing insider risk. The GRC also maintained oversight of the ever-changing and increasingly complex international sanctions landscape in which the Group and its customers operate, as well as the Group's approach to managing its compliance with sanctions regimes globally. The GRC held a full-day training session on sanctions in Hong Kong in January for our Asia-Pacific non-executive Directors and management. A further education session on sanctions was held for Group-wide non-executive Directors in October to address the US government imposition of sanctions in connection with its Hong Kong Autonomy Act. Following the organisational restructuring of Financial Crime Compliance, the GRC requested the Committee's independent financial crime advisers to examine the effectiveness of the financial crime function in the Group's subsidiaries.
Model risk	HSBC faces risk from the inappropriate or incorrect business decisions arising from the use of models that have been inadequately designed, implemented or used, or from models that do not perform in line with expectations and predictions.	The GRC raised awareness of progress and importance of models at a number of its meetings and at the regional Audit and Risk Committee Chairs' Forums. It reviewed progress under the Group's model risk transformation programme. The Committee oversaw the development and embedding of improved model risk management controls and oversight in the first line of defence, as well as enhancements to model risk governance. The GRC also considered the adverse impact of the Covid-19 outbreak on model uncertainty including the need for enhancements as necessary.
Resolvability	HSBC is required to show how its resolution strategy could be carried out in an orderly way, including identification of any risks to successful resolution.	The GRC monitored the Group's progress in demonstrating that it has developed capabilities to support its own resolution, in line with the Group's resolution strategy in order to meet new requirements from the Bank of England under its resolvability assessment framework by 1 January 2022, including the requirement to comply with the valuation in resolution requirement by 1 April 2021, to submit a self-assessment to the PRA/Bank of England by 1 October 2021 and to publicly disclose HSBC's resolvability in June 2022. Together with the Group Chief Financial Officer, the GRC and GAC programmed our five regional Audit and Risk Committee Chairs' Forums to raise the importance of Boards and management of principal subsidiaries in upgrading their awareness and compliance with new regulatory standards for recovery and resolution.

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.

'The remuneration outcomes for 2020 strike the right balance between rewarding our employees for their exceptional efforts this year and being equitable in the broader context.'

Dear Shareholder

I am pleased to present our 2020 Directors’ remuneration report on behalf of the members of the Group Remuneration Committee.

Making remuneration decisions in the face of the challenges presented by the Covid-19 pandemic required a delicate balancing of factors. Recognising our people for their performance is a key element of our reward strategy and helps to drive ongoing engagement, which is critically important as we navigate through the Covid-19 outbreak and the Group’s transformation. However, we must also recognise the impact of these circumstances on our stakeholders and the wider community.

Actions taken in response to Covid-19

In determining the remuneration outcomes, the Committee noted the following:

- We did not apply for government support packages for our employees across the countries and territories in which we operate, and put employee well-being, customer experience, and supporting the economy at the centre of our response to the pandemic.
- Our front-line employees continued to serve customers in challenging circumstances. Our customer contact centres were fully operational during the period, and between 70% and 90% of branches remained open, as we continued to enhance our digital capabilities.
- We worked with governments to support national schemes, granting over 720,000 payment holidays to our personal customers and 237,000 loans to our wholesale customers. We provided more than $26bn in customer relief to our personal customers during the initial stages of the pandemic and more than $52bn in lending to wholesale customers, many of whom still require our support.
- In line with all other large UK-based banks and at the direct request of the Group’s lead regulator, the UK’s PRA, we cancelled the fourth interim dividend of 2019 and suspended dividend payments until the end of 2020. In December 2020, the PRA announced a temporary approach to shareholder distributions for 2020. After considering the requirements of the temporary approach, the Board announced an interim dividend for 2020 of $0.15 per ordinary share.

Membership

	Member since	Meeting attendance in 2020
Pauline van der Meer Mohr (Chair)	Jan 2016	5/5
Henri de Castries	May 2017	5/5
James Forese	May 2020	4/4
Irene Lee	Apr 2018	5/5
David Nish	May 2017	5/5

Reflecting on these actions, the Committee concluded that the 2020 remuneration outcomes should strike the right balance between rewarding our employees for their exceptional efforts this year and being equitable in the broader context.

Performance and pay for 2020

Financial performance

The Group's financial performance deteriorated in 2020, reflecting the impact of the Covid-19 outbreak on the global economy. Adjusted profit before tax of $12bn was down 45% due to lower revenue and a higher expected credit loss charge directly linked to the impact of the pandemic.

However, the Group continued to make good progress on its strategic plan, demonstrated by a $51.5bn reduction of RWAs in 2020 in low-return franchises and a 3% reduction in adjusted costs. Economic activity in Asia has proven to be resilient and is rebounding. We continue to elevate our ambition in the region by stepping up our investment.

Non-financial performance

We made progress in creating a simpler, more efficient organisation by combining our wholesale back office operations, and bringing our retail, wealth and private banking businesses together into a single global business. We also continue to increase investment in technology to drive improved customer experience and operational efficiency. Technology enhancements introduced in 2020 included automated lending processes for Covid-19 relief programmes, upgraded global payment systems, transformed customer onboarding processes, and use of Cloud technology for risk analytics systems.

Remuneration funding approach

While events such as those seen in 2020 are rare, our remuneration framework was designed with the entire economic cycle in mind, including the possibility of exceptional years. We use a countercyclical funding methodology, with both a floor and a ceiling, to recognise that there will be times when profitability is exceptionally low or exceptionally high as a result of factors not directly linked to employee performance. In such years, factors such as applying franchise protection and limiting the risk of inappropriate behaviour need to be considered when setting the variable pay pool. Nonetheless, financial performance and affordability remain central tenets in determining the appropriateness of the variable pay pool.

Group variable pay pool

For 2020, the Committee reviewed and agreed the Group variable pay pool of $2,659m, 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 operating plan. This represents a 20.4% reduction in the pool compared with 2019, with the variable pay pool down approximately 15% in Global Banking and Markets, asset management and private banking, and approximately 22.5% in other areas of the Group. We also differentiated by market, with a better year-on-year outcome in Asia, reflecting the region's strategic importance and consistent contribution towards Group performance.

In determining the size of the pool, the Committee took into account the fact that overall financial performance was lower than what we had targeted at the start of the year, and certain non-financial risk metrics were outside of our risk appetite. We also took into account the exceptional circumstances faced by our shareholders, including the impact of the regulatory request to cancel the final 2019 dividend and suspend dividend payments until the end of 2020.

While it is appropriate that the pool is significantly lower this year, the Committee was cognisant of the extraordinary effort and performance of many of our colleagues in 2020. Equally, it is critical we retain talent for the long-term interests of our stakeholders. This is of particular importance in growth markets and our areas of strategic focus, and is most acute for our high performers who are helping us restore the business to our expected performance levels. As a result, the variable pay accrual was increased in the fourth quarter in response to financial performance and market pay challenges.

Review of workforce remuneration

Remuneration outcomes

In allocating the pool, the Committee decided that while the variable pay outcomes for junior colleagues should reflect Group performance, they should receive better outcomes with less differentiation relative to our senior employees. Overall, total compensation for our junior members of staff was broadly flat, which we felt was important given their significant efforts in a challenging year. Higher paid employees had an overall decrease in total compensation. We also made limited fixed pay increases for 2021 and targeted these towards our junior colleagues. As part of the year-end pay review, the Committee reviewed results of remuneration outcomes to ensure they were in line with our pay principles and the approach decided by the Committee for 2020.

Support for our employees

Throughout 2020, the well-being of our people was our paramount concern. Many employees had to juggle personal and professional priorities, while adapting to new and unfamiliar ways of working. In March 2020, we temporarily paused the redundancy programme intended to deliver the reduction in headcount that we set out in the transformation programme announced in February 2020. The Board was conscious of the impact of proceeding with redundancies, particularly at the outset of the crisis given the significant stress for our people and communities, and the need to protect our capacity to serve our customers. The Board lifted the pause on the redundancy programme in June 2020 while continuing the freeze on the vast majority of external recruitment to make every effort to fill vacancies internally. We maintained a regular flow of communication and listened closely to our colleagues' needs, providing the support and flexibility required to help them manage their lives during the pandemic, and maintained their full pay without applying for government support packages.

We ran a mid-year employee survey to determine how the Covid-19 outbreak was impacting our colleagues and how we could support them through this period. More than 50% of our total employee population responded, of which more than 89% said they were getting the information they needed from the organisation, 86% reported that they were getting the support they needed from their line manager and 86% of the respondents reported they felt confident in leadership. In addition, 75% of employees that participated in our 2020 Snapshot survey said they believed HSBC values their well-being.

For our departing colleagues, we took steps to offer them support on searching and applying for jobs and preparing for interviews. We also maintained a dedicated advice website, offered virtual workshops and provided access to career development tools to set them up for success outside HSBC.

Key remuneration decisions for Directors

Voluntary decisions made by executive Directors

Reflecting on the severity of the impact of Covid-19 at the outset, our two executive Directors made personal contributions to the fight against the pandemic by donating to charity a quarter of their base salaries for six months, and our Group Chairman donated his entire fee for 12 months to charity. Additionally, as an organisation, we provided $25m in charitable donations, which went toward immediate medical relief, access to food, and care for the most vulnerable people. Our executive Directors also decided to voluntarily forgo any annual cash bonus for 2020 due to the impact of the suspension of dividends on our shareholders.

Executive Director annual performance assessment

With regard to performance-based pay for 2020, the financial measures in the executive Directors' annual scorecards were aligned to the delivery of profit before tax, our strategic priority of reducing RWAs in low-return franchises and, for the Group Chief Financial Officer, effective management of Group costs. Following careful consideration, these targets were not revised for the significant economic impact of the Covid-19 outbreak to reflect the Committee's view that reward for our executive Directors should align with the experience of our shareholders.

Non-financial performance measures were linked to customer satisfaction, employee engagement and diversity, environmental stewardship, risk and compliance, and organisational simplification. The Committee noted strong non-financial performance as our commitment to delivering responsibly for our stakeholders remained unchanged throughout the pandemic. In addition to the actions noted to support our customers and the wider economy, customer and digital satisfaction scores increased in some of our scale markets, employee engagement scores improved, we met our diversity goal of having at least 30% women in senior management roles, and we achieved carbon reduction and sustainable finance and investment targets. We were also recognised by *Euromoney* for 'Global Excellence in Leadership during the Covid-19 pandemic' in its Awards for Excellence 2020.

Executive Director annual incentive scorecard outcome

The above resulted in an overall outcome of 64.50% for the Group Chief Executive and 63.75% for the Group Chief Financial Officer (further details of performance are provided on page 240). The Committee reviewed this outcome in the context of a number of internal and external considerations to determine whether it should exercise its discretion to reduce the outcome, including:

- overall share price performance in the year, which was significantly impacted by both the Covid-19 outbreak and the impact of the PRA's request to suspend dividend payments;
- the impact of the bonus pool reduction on the total compensation for our wider workforce;
- profit before tax and return on tangible equity ('RoTE') performance; and
- the positive actions taken by the Board to support our customers, colleagues and communities in these uncertain times.

The Committee determined the 2020 formulaic scorecard outcomes appropriately reward the executive Directors for their performance within the context of overall stakeholder experience. With the voluntary waiver of cash bonuses by executive Directors, the Group Chief Executive's effective payout was reduced to 32.25% of its maximum, and the Group Chief Financial Officer's was reduced to 31.88%. The effective payouts are 51.43% and 58.86% below their respective outcomes compared with 2019.

2020 long-term incentive ('LTI') for executive Directors

To reflect the Group's strategy, and after listening to our shareholders, the Committee has agreed that the 2020 LTI will be based on four equally weighted measures.

- RoTE: We have retained a key measure of our financial performance and how we generate returns that deliver value for our shareholders.
- Capital reallocation to Asia: We have set a new metric to assess a key lever of our strategy and business transformation plan.
- Environment and sustainability: We have set a new measure to align with the Group's climate ambition to bring our own operations to net zero by 2030 and support our customers in their transition to a more sustainable future.
- Relative total shareholder return: We have retained this metric, which rewards executive Directors based on comparison of the

total shareholder return performance of the Group and a relevant peer group.

2020 LTI grant size

The Committee is aware of shareholders' expectations on the need to adjust the size of LTI awards to ensure they do not result in 'windfall gains' in the event that the share price falls significantly due to the impact of the Covid-19 outbreak. While this does not impact outstanding LTI awards, the Committee agreed, in line with investor expectations, that the 2020 LTI awards should be subject to a 'windfall gain' adjustment at grant if the share price falls significantly relative to the grant price of the 2019 LTI. This is to ensure that the reward for our executive Directors aligns with the experience of our shareholders and is reflective of management performance over the performance period.

While the share price to be used for the 2020 LTI award is not known at this stage, the Committee has agreed, in line with investor expectations, if the 2020 LTI grant share price experiences a greater than 30% decline since the previous grant, this would be considered a material share price fall, and an adjustment percentage equal to half the share price percentage decline would be applied to the awards to mitigate the potential for 'windfall gains'.

Executive Directors' fixed pay for 2021

We have increased the base salary of our executive Directors by 1.6% in line with the average increase for our Group employees. Additionally, in an expansion to his current remit, the Group Chief Financial Officer will assume responsibility for the Group's transformation programme, effective immediately, and its mergers and acquisitions agenda, from April. In acknowledgement of the expanded remit and responsibilities, the Committee has decided to adjust his fixed pay allowance from £950,000 to £1,085,000 in accordance with the terms of the Directors' remuneration policy approved at the 2019 AGM. The executive Directors have made the personal decision to donate 100% of their salary and fixed pay allowance increases for 2021 to charity given the ongoing challenging external environment.

Investor consultation

The Committee considers that regular dialogue with our shareholders, including outside of our policy vote years and especially during these uncertain times, is important to ensure our remuneration policy operates as intended and in line with shareholder expectations. In 2020, we met with a number of our significant shareholders and proxy voting agencies to hear their views on executive and wider workforce remuneration. As ever, we found this engagement to be very helpful as we considered the implementation of our remuneration policy, including the 'windfall gain' adjustment for the 2020 LTI award, and use of ESG measures in the forward-looking scorecards. Further details of the 2020 LTI measures and targets are on page 243. The 2021 annual incentive scorecard is provided on page 249.

On behalf of the Committee, I would like to thank investors for their time during the consultations and their support for the direction of travel.

The Group's Directors' remuneration policy is due to expire at the 2022 AGM. During the course of 2021, we will be reviewing our current approach to Directors' remuneration and will consult with our large shareholders and proxy advisory bodies with the aim of introducing a new policy in 2022. The review will continue to be based on our following key principles:

- The policy should be simple and transparent.
- There should be a strong alignment between rewards and the interests of our stakeholders, including shareholders, customers and employees.
- The policy should maintain a focus on long-term performance.
- The total compensation package should be competitive to ensure we can retain and attract talent.
- The structure should meet the expectations of investors and our regulators.

The Committee is concerned that over time, HSBC's overall remuneration opportunity has fallen behind desired levels to reflect the calibre of the executives and market positioning. While conscious of external sentiment, one of the areas of focus for the Committee will therefore be ensuring that overall remuneration levels remain appropriate in the context of the above and support delivery of our strategic priorities. Any proposed changes would be discussed with shareholders and the proxy advisory bodies as part of the wider consultation on the remuneration policy in 2021.

Our annual report on remuneration

As Chair of the Committee, I hope you will support the 2020 Directors' remuneration report.

Pauline van der Meer Mohr

Chair

Group Remuneration Committee

23 February 2021

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, the Group Chairman 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.

The Committee met five times during 2020. James Forese was appointed as a member of the Committee on 1 May 2020. David Nish stepped down as a member of the Committee on 23 February 2021. The following is a summary of the Committee's key activities during 2020.

Matters considered during 2020

	Jan	May	Jul	Sep	Dec
Remuneration framework and governance					
Group variable pay pool, workforce performance and pay matters, Gender Pay Gap report, and employee surveys	●	●	●	●	●
Executive Director remuneration policy implementation, scorecards and pay proposals	●	●	●	●	●
Remuneration for other senior executives of the Group	●	●	○	○	●
Non-executive Director compensation	○	●	○	○	●
Shareholder consultation and proxy adviser views	○	●	○	●	●
Directors' remuneration report	●	○	○	●	●
Regulatory, risk and audit					
Information on material risk and audit events, and performance and remuneration impacts for individuals involved	●	●	●	●	●
Regulatory updates and filings, including approach and outcomes for the identification of Material Risk Takers	●	●	●	●	●
Corporate governance briefings	○	●	○	○	●
Principal subsidiaries					
Matters from subsidiary committees	●	●	●	●	●

Advisers

The Committee received input and advice from different advisers on specific topics during 2020. Deloitte LLP's engagement with the Committee was extended during 2020. The Committee's decision reflected the quality and objectivity of the independent advice that Deloitte had provided to the Committee on remuneration matters. Deloitte provided benchmarking data on remuneration policy matters and independent advice to the Committee. 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 adviser by management after considering invited proposals from similar consultancy firms. It provides actuarial support to Global 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 2020. 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 2020, total fees of £173,900 and £68,289 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 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;
- Elaine Arden, Group Chief Human Resources Officer;
- Alexander Lowen, Group Head of Performance Management, Reward, Human Resources Transformation and People Analytics;
- Pam Kaur, Group Chief Risk Officer;
- Colin Bell, Group Chief Compliance Officer;
- Jonathan Calvert-Davies, Group Head of Audit; and
- Aileen Taylor, Group Company Secretary and Chief Governance Officer.

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

Review of workforce remuneration and related policies

In light of the year's challenging circumstances, the Committee's review and approval of the workforce remuneration strategy was particularly focused on ensuring protection for our junior employees and delivering appropriate pay differentiation for those areas of the business that performed well.

The Committee also reviewed the results of remuneration outcomes across the Group to ensure they were in line with our pay principles (as set out on page 233). This included details of variable remuneration adjustments and 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.

We measure our employees' sentiment on performance and pay matters through our annual pay review surveys. In the first half of 2020, the Committee reviewed the results of the most recent survey. A significant proportion of the respondents' comments indicated improved sentiment towards our pay review process. The majority of employees believed their year-end ratings were a fair reflection of their performance and behaviour, and felt motivated to perform at their best following their performance review.

Committee effectiveness

The annual review of the effectiveness of the Board committees was internally facilitated during 2020. Overall, the review concluded that the Group Remuneration Committee continued to operate effectively, with a number of positive aspects of the operation and practices highlighted by the review. There were also areas of improvement identified, including the engagement dynamic with advisers. The Committee has considered and discussed the outcomes of the evaluation, and accepts the findings with a number of actions to address them already in progress. The outcomes of the evaluation have been reported to the Board and the Committee will track progress against the recommendations during 2021.

Our approach to workforce remuneration

Remuneration principles

Our performance and pay strategy aims to reward competitively the achievement of long-term sustainable performance by attracting, motivating and retaining the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. It supports our people to perform their roles in the long-term interests of our stakeholders, which includes the customers and communities we serve, our shareholders and our regulators. The strategy is underpinned by:

- decisions that are fair, appropriate and free from bias;
- a culture supportive of continuous feedback through manager and employee empowerment;
- reward and recognition of sustainable performance and values-aligned behaviour; and
- a balanced, simple and transparent total reward package that supports employee well-being.

Spotlight on 2020: Our response to the Covid-19 outbreak

These principles were key to facilitating the agile approach we took to pay and performance in response to the Covid-19 outbreak. In response to the challenging circumstances our colleagues faced, we offered them increased practical support, recognised them for their exceptional response to our customers and each other, and helped to ensure fair and appropriate treatment.

Appropriate practical support for our colleagues

- We took a country-based approach to our response to ensure that what we provided to our employees was appropriate for the conditions and restrictions in place in their location.
- Our priority was to support the well-being of our employees using a range of initiatives focusing on:
  - enabling employees to work flexibly to support additional caring responsibilities;
  - ensuring employees could purchase the equipment they needed to work from home wherever possible;
  - providing financial assistance to employees who may have incurred additional costs, for example where normal commuting or onsite catering services were disrupted; and
  - supporting mental and physical well-being with employee assistance programmes, access to Covid-19-related private medical treatment and flu vaccination initiatives.
- More than 50% of our total employee population responded to our mid-year employee survey. Of those who responded, 86% of employees reported they were getting the support they needed from their line manager, and 83% said they believed HSBC valued their well-being.

Recognising the exceptional response

- We ran a 'Spotlight' campaign within our 'At Our Best Recognition' points programme that focused on recognising our Covid-19 Heroes.
- There were over 169,000 colleague recognitions made over a three-month period, a threefold increase in recognitions compared with previous Spotlight campaigns that we have run.

Helping managers to make fair decisions

- The majority of our people underwent a change in working pattern and/or location as a result of the Covid-19 outbreak. We wanted to ensure our people are always recognised against relevant and achievable objectives with allowance for barriers to performance outside of their control.
- In response to the Covid-19 outbreak, we issued specific guidance for managing performance under some of the most common scenarios our people found themselves in, to support our managers in continuing to make performance decisions.

Our approach to performance and pay in 2020 for the broader workforce was underpinned by our remuneration principles.

Principle	Our approach in 2020
Fair, appropriate and free from bias	• **Our communications to managers encouraged them to challenge their assessments by questioning whether they were objective and based on fact**. Managers in similar roles then came together to complete fairness reviews of the performance and behaviour ratings of their team and make any necessary adjustments based on the review of the peer group to mitigate the risk of bias and take a broader view of team performance. • **We supported managers, particularly the less experienced ones, to make informed, consistent and fair pay decisions.** Managers of 96% of our junior employees are supported by simplified or guided decision making. • As part of our annual performance and pay review process, **we undertook analytical reviews to check for and identify bias**, and provide these reports to our senior management and Group Remuneration Committee as part of their review of annual pay review outcomes. • We made pay and performance reporting tools available to our managers for the purpose of undertaking an analytical review of pay decisions for their team. **We continue to enhance these based on manager feedback to make these tools useful and increase usage.** • **We regularly review our pay practices** and in 2020 worked 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 made adjustments.**
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.** • **In 2020, we enhanced our continuous feedback culture, Everyday Performance and Development,** which supported our people to have regular conversations with their line managers about items such as their performance, pay, development and well-being throughout the year. • **We launched our Continuous Performance Management tool, including on mobile,** to make it easier for our people as team members and as managers to share activities, feedback, achievements and progress regularly to drive conversations. • We encouraged colleagues to use our online career planning tools to **help them with their thinking about future roles and the capabilities they require.** • Line managers were 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. **We were clear on the decisions that managers are empowered to own and provided them with principles to support such decision making.** • Employees also received 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.**
Reward and recognition of sustainable performance and values-aligned behaviour	• We have a robust performance management process that underpins our approach to reward and **drives clear pay differentiation.** • **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 impact the relevant pool, while the final pool also considers the external operating environment and expectation of our stakeholders. • 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. • **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 to ensure performance is assessed not only on what is achieved, but also on how it is achieved. • We 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. • **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. • **Our global 'At Our Best' recognition programme allows our people to recognise their colleagues for demonstrating our values**, with an award of recognition points that can be redeemed against a wide range of goods. Over one million peer-to-peer recognitions were made globally in 2020. • 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.**
Balanced, simple and transparent total reward packages, which support employee well-being	• **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. We are informed, but not driven, by market position and practice. • For the 2020 pay review process, **we have prioritised fixed pay increases for our global career bands 6 to 8 population**, where it represents a higher proportion of total compensation, and towards locations and business areas which are particularly integral to the execution of the Group's strategy. • **We are committed to employee well-being** and offer employee benefits that support the mental, physical and financial health of a diverse workforce. • **All HSBC employees that work in a jurisdiction with a legal minimum wage are paid at or above this amount.** 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'.

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 2021
Base salary[1] 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. • 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 will be increased by 1.6% in line with the overall increase for Group employees. Base salary from 1 March 2021 will be as follows: • Noel Quinn: £1,291,000 • Ewen Stevenson: £753,000
Fixed pay allowance ('FPA')[1] 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. • 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. • Dividends are paid on the vested shares held during the retention period.	FPA for 2021 will be as follows: • Noel Quinn: £1,700,000 • Ewen Stevenson: will increase from £950,000 to £1,085,000 from 1 March 2021
Cash in lieu of pension 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. • This allowance, 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.	• No change to percentage of base salary.
Annual incentive 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. • Annual incentive performance is measured against an individual scorecard. • At least 50% of any award is delivered in shares, which are normally immediately vested. • On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and social security payable) will be held for a retention period of up to one year, or such period as required by regulators. • 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. • The Committee retains the discretion to: – apply a longer retention period; – increase the proportion of the award to be delivered in shares; and – defer the vesting of a portion of the award.	• See page 249 for details of performance measures.
Long-term incentive ('LTI') To incentivise sustainable long-term performance and alignment with shareholder interests.	• The maximum opportunity is up to 320% of base salary. • The LTI is granted if the Committee considers that there has been satisfactory performance over the prior year. • 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. • 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. • On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and social security payable) will be held for a retention period of up to one year, or such period as required by regulators. • 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. • 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.	• See page 249 for further details.

1 *The executive Directors have made the personal decision to donate 100% of their increases to salaries and increases to their fixed pay allowances for 2021 to charity given the ongoing challenging external environment.*

Remuneration policy summary – executive Directors

Elements and objectives	Operation	Implementation in 2021
Benefits 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). • 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 2021* single figure of remuneration table.
Shareholding guidelines 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: • Group Chief Executive: 400% • Group Chief Financial Officer: 300%	• No change to percentage of base salary.
All-employee share plans 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 2021*, 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

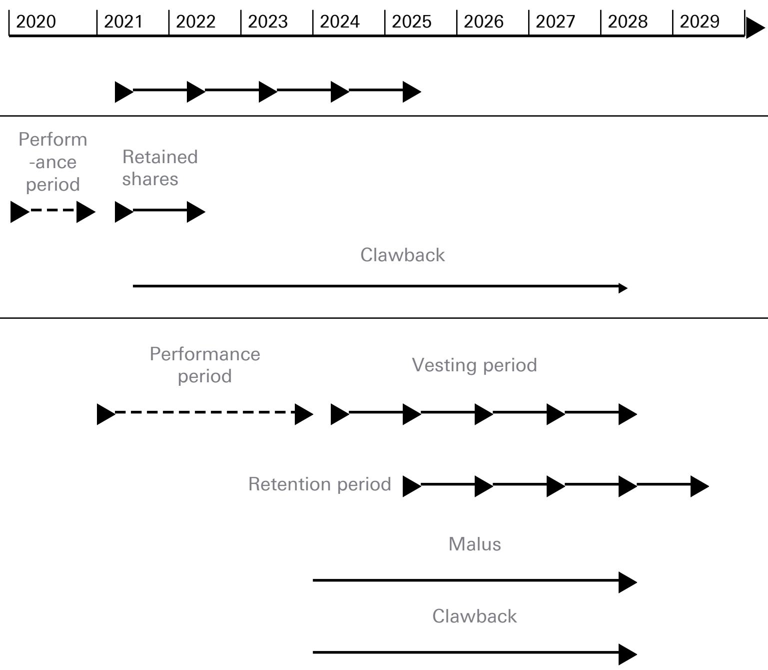
- Released in five equal annual instalments starting from March 2021.

Annual incentive

- Paid 50% in cash and 50% in immediately vested shares subject to a retention period of one year.
- 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.
- Subject to performance outcome, awards will vest in five equal annual instalments starting from the third anniversary of the grant date[1].
- On vesting, shares are subject to a retention period of one year.
- Unvested awards subject to malus provisions.
- 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 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. • 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 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 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 252). • Risk and conduct considerations are taken into account in setting the variable pay pool, from which any executive Director variable pay is funded. • 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. • 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 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 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. • 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 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. • 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. • Annually, senior employees participate in a 360 degree survey which gathers feedback on values-aligned behaviours.

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, with the exception of a revised fee for the Senior Independent Director. This change was approved by the Committee following Sir Jonathan Symonds' retirement from the Board and as Deputy Group Chairman and Senior Independent Director in February 2020, when David Nish was appointed as Senior Independent Director.

In addition, and in light of the increasingly significant role of technology in the Group's strategy, operations and growth prospects, the Board approved the establishment of a Technology Governance Working Group for a period of 12 months. The working group has been tasked with developing recommendations to strengthen the Board's oversight of technology strategy, governance and emerging risks.

The working group will be jointly chaired by Eileen Murray and Steven Guggenheimer, given their expertise and experience in this area. Jackson Tai, the Group Risk Committee Chair, will be a member, with other non-executive Directors members from our US, UK, European and Asian principal subsidiaries.

The time commitment expected of the co-Chairs will be up to 30 days, reflective of the complexity and profile of the subject matter. As a result, the Group Remuneration Committee have determined a fee of £60,000. Members will not receive fees.

Accordingly, the following table sets out the fees for 2021.

Position		2021 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 and Group Remuneration Committee	Chair	**75,000**
	Member	**40,000**
Nomination & Corporate Governance Committee	Chair	**—**
	Member	**33,000**
Technology Governance Working Group	Co-Chair	**60,000**

1 *The Group Chairman does not receive a base fee or any other fee in respect of chairing of the Nomination & Corporate Governance 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	18 March 2020	12 months
Ewen Stevenson	1 December 2018	12 months

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 198 to 203, 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:

2021 AGM	2022 AGM	2023 AGM
Mark Tucker	Irene Lee	David Nish
Heidi Miller	José Antonio Meade Kuribreña	Jackson Tai
Laura Cha	Pauline van der Meer Mohr	
James Forese[1]	Henri de Castries	
Steven Guggenheimer[1]		
Eileen Murray[1]		

1 *James Forese, Steven Guggenheimer and Eileen Murray were appointed following the 2020 AGM and therefore their initial three-year appointment terms are subject to approval of their election by shareholders at the 2021 AGM. Their initial three-year term of appointment will end at the conclusion of the 2024 AGM, subject to shareholders' approval at the relevant AGMs.*

Annual report on remuneration

This section sets out how our approved Directors' remuneration policy was implemented during 2020.

Single figure of remuneration

(Audited)

The following table shows the single figure of total remuneration of each executive Director for 2020, together with comparative figures.

Single figure of remuneration

	Noel Quinn[1]		Ewen Stevenson	
(£000)	**2020**	2019	**2020**	2019
Base salary[2]	**1,266**	503	**738**	719
Fixed pay allowance	**1,700**	695	**950**	950
Cash in lieu of pension	**127**	50	**74**	107
Taxable benefits[3]	**186**	41	**12**	16
Non-taxable benefits[3]	**59**	23	**32**	28
Total fixed	**3,338**	1,312	**1,806**	1,820
Annual incentive[4]	**799**	665	**450**	1,082
Notional returns[5]	**17**	—	**—**	—
Replacement award[6]	**—**	—	**1,431**	1,974
Total variable	**816**	665	**1,881**	3,056
Total fixed and variable	**4,154**	1,977	**3,687**	4,876

1 *Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and was appointed permanently into the role on 17 March 2020. The remuneration included in the single figure table above for 2019 is in respect of his services provided as an executive Director for that year.*
2 *As outlined on page 230, the executive Directors each donated a quarter of their base salary for six months in 2020. The base salary shown in the single figure of remuneration is the gross salary before charitable donations.*
3 *Taxable benefits include the provision of medical insurance, accommodation, 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.*
4 *Under the policy approved by shareholders, executive Directors can receive 50% of their annual incentive award in cash and the remaining 50% in immediately vested shares subject to a one-year retention period. As the executive Directors each decided not to take an annual cash bonus, the 2020 annual incentive is the amount after this waiver and will be delivered in immediately vested shares subject to a one-year retention period. The total annual incentives waived by the Group Chief Executive and Group Chief Financial Officer were £799,000 and £450,000, respectively.*
5 *'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 the grant date and vesting date, which is determined by reference to a rate of return specified at the time of grant. A payment of notional return is made annually and the amount is disclosed on a paid basis in the year in which the payment is made.*
6 *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 for 2019 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. Values in the table for 2020 relate to his 2017 LTI award granted by RBS for performance year 2016, which was determined by applying the performance assessment outcome of 56.25% as disclosed in RBS's Annual Report and Accounts 2019 (page 91) to the maximum number of shares subject to performance conditions. This resulted in a payout equivalent to 78.09% of the RBS award shares that were forfeited and replaced with HSBC shares. A total of 313,608 shares were granted in respect of his 2017 LTI replacement award at a share price of £6.643. The HSBC share price was £5.845 when the awards ceased to be subject to performance conditions, with no value attributable to share price appreciation.*

Benefits

The values of the significant benefits in the single figure table are set out in the following table[1].

	Noel Quinn	
(£000)	**2020**	2019
Insurance benefit (non-taxable)	**51**	—
Car and driver (UK and Hong Kong)	**139**	—

1 *The value of benefits provided to Noel Quinn in 2019 were not deemed significant. The insurance and car benefits for Ewen Stevenson are not included in the above table as they were not deemed significant.*

Determining executive Directors' performance

(Audited)

Awards made to executive Directors reflected the Committee's assessment of performance against scorecard objectives which were developed with consideration for the Group's strategic priorities and risk appetite. The targets for financial measures were set at the start of the financial year. They were not revised for the significant economic impact of the Covid-19 outbreak due to the Committee's desire that reward for our executive Directors should reflect the experience of our shareholders in the year. For non-financial objectives, the performance assessment involved considering targets set in line with our disclosed commitments, such as carbon emissions reduction, diversity, survey results for employee experience and customer satisfaction measures, as detailed in the non-financial performance assessment table. Performance achieved against each measure was applied to the weighting of each objective to determine the outcome percentage. As part of this assessment, the Committee consulted the Group Risk Committee and took into consideration its feedback in determining outcomes for the executive Directors' risk and compliance measures. It also considered whether any discretion should be exercised with respect to the risk and compliance underpin.

As set out in the scorecard assessment table below, the target for profit before tax was not met. However, good progress was made against the targets set for RWA optimisation and cost-savings measures, and strong progress was made on the non-financial metrics, as our commitment to delivering responsibly for our stakeholders remained unchanged throughout the pandemic.

Overall, this level of performance resulted in a payout of 64.50% of the maximum for the Group Chief Executive and 63.75% for the Group Chief Financial Officer. The Committee reviewed these outcomes in the context of a number of internal and external considerations to determine whether it should exercise its discretion to reduce the outcome, including:

- overall share price performance in the year, which was significantly impacted by both the Covid-19 outbreak and the impact of the regulator's request to suspend dividend payments;
- the impact of the bonus pool reduction on the total compensation for our wider workforce;
- profit before tax and RoTE performance; and
- the positive actions taken by the Board to support our customers, colleagues and communities in these difficult and uncertain times.

Taking the above into account, the Committee determined that the 2020 formulaic scorecard outcome appropriately rewards the executive Directors for their performance within the context of overall stakeholder experience. With the voluntary waiver of cash bonuses by the executive Directors, the effective payout was reduced to 32.25% of the maximum for the Group Chief Executive (2019: 66.40%) and 31.88% for the Group Chief Financial Officer (2019: 77.50%).

In order for any annual incentive award to be made, each executive Director must achieve a minimum behaviour rating, which is assessed by reference to the HSBC Values. For 2020, both executive Directors met this requirement.

The maximum 2020 annual incentive opportunity for Noel Quinn was set at 195% of salary and for Ewen Stevenson at 191% of salary.

Annual assessment

				Group Chief Executive			Group Chief Financial Officer		
	Minimum (25% payout)	**Maximum (100% payout)**	**Performance**	**Weighting (%)**	**Assessment (%)**	**Outcome (%)**	**Weighting (%)**	**Assessment (%)**	**Outcome (%)**
Grow profit before tax[1] ($bn)	**19.91**	**23.38**	**14.77**	**30.0**	**–**	**–**	**20.0**	**–**	**–**
RWA optimisation[2] ($bn)	**35.00**	**44.90**	**51.50**	**20.0**	**100.0**	**20.00**	**20.0**	**100.0**	**20.00**
Cost savings ($bn)	**1.00**	**1.60**	**1.04**	**–**	**–**	**–**	**10.0**	**30.0**	**3.00**
Customer satisfaction	**See following section for non-financial performance commentary**			**10.0**	**80.0**	**8.00**	**10.0**	**80.0**	**8.00**
Employee experience				**10.0**	**95.0**	**9.50**	**10.0**	**95.0**	**9.50**
Environment				**10.0**	**85.0**	**8.50**	**10.0**	**85.0**	**8.50**
Risk and compliance				**10.0**	**85.0**	**8.50**	**10.0**	**85.0**	**8.50**
Personal objectives				**10.0**	**100.0**	**10.00**	**10.0**	**62.5**	**6.25**
Total				**100.0**		**64.50**	**100.0**		**63.75**
Maximum annual incentive opportunity (£000)						**£2,478**			**£1,412**
Annual incentive pre-cash waiver (£000)						**£1,598**			**£900**
Annual incentive post-cash waiver (£000)						**£799**			**£450**

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 *As set out in our February 2020 business update, our objective is to reduce RWAs in low-return franchises (in particular the US and the non-ring-fenced bank in Europe and the UK) and redeploy capital in areas of faster growth and higher returns. Our target is to achieve a $100bn reduction by 2022, with a $35bn RWA reduction target for 2020. We achieved a reduction of $51.5bn during 2020, which included a reduction of $37.4bn in GBM, mainly in our non-ring-fenced bank and in the US, and $12.9bn in CMB, primarily in our ring-fenced bank.*

Non-financial performance

Shared objectives for the Group Chief Executive and Group Chief Financial Officer

Objectives	Performance
Customer satisfaction *Re-engineer the business with digital technology to improve customer service*	• In our Wealth and Personal Banking business, our retail customer satisfaction scores in six of seven scale markets (excluding SABB) were ranked in the top three or improved at least two ranks against the benchmark, and three markets improved their digital satisfaction scores. Our private banking business did not meet either of its improvement targets. • In our Commercial Banking business, four of seven scale markets (excluding SABB) improved their customer satisfaction scores and six improved their digital satisfaction scores. • Our Global Banking and Markets business met the target of improving on its 2019 net promoter score of 38, with a global net promoter score of 48 (compared with a global competitor score of 40). The global digital satisfaction score of 64% also exceeded the global competitor digital satisfaction score of 36%. • In Hong Kong, we launched a fully remote, digital account opening solution for business customers, while in the UK, we launched HSBC Kinetic, our new app-only digital banking offering for small and medium-sized business customers. In China, we launched Pinnacle, our new digital platform for wealth planning and insurance services. • During the Covid-19 outbreak, we enhanced our digital capabilities to serve more customers remotely, with faster access and improved security. We also engaged with regulators to help customers gain better access to a broad range of banking products and services from their homes, including through remote consultations and sales. • We maintained a high level of business continuity and customer support with 85% of colleagues equipped to work from home, all of our customer contact centres fully operational, and between 70% and 90% of our branches open for business. • We worked with governments to support national schemes, granting over 720,000 payment holidays to our personal customers and 237,000 loans to our wholesale customers. We provided more than $26bn in customer relief to our personal customers during the initial stages of the pandemic and more than $52bn in lending to wholesale customers, many of whom still require our support. • We helped our clients raise over $1.89tn in capital markets financing, and we retained a top-three position in green, social and sustainable finance bonds, according to Dealogic's rankings. Our Global Banking and Markets business helped arrange more than $125bn of financing for our clients through social and Covid-19 relief bonds.
Employee experience *Improve engagement, diversity and succession*	**Employee engagement** • Our Employee Engagement Index, which measures employee survey sentiment on pride, advocacy, intent to stay, motivation and feeling of accomplishment questions, increased by five percentage points to 72%, meeting our target to improve the metric. • During the Covid-19 outbreak, extra steps were undertaken to maintain a healthy culture, including: a regular dialogue with our colleagues through regular leadership calls and communications; listening closely to their needs; and providing the support and flexibility to manage their lives during the pandemic. A culture of 'looking out for each other' was encouraged and employee networks held regular support calls for employees, specifically those experiencing mental health challenges and those with caring responsibilities. • We ran a mid-year employee survey to determine how the Covid-19 outbreak was impacting our colleagues and how we could support them through this period. More than 50% of our total employee population responded, of which more than 89% said they were getting the information they needed from the organisation, 86% reported that they were getting the support they needed from their line manager, and 86% of the respondents reported they felt confident in leadership. In addition, 75% of employees that participated in our 2020 Snapshot survey said they believed HSBC values their well-being. **Diversity and inclusion** • We met our aspirational target of achieving at least 30% women holding senior leadership positions by 2020. • Several components of the global diversity and inclusion strategy were reprioritised throughout 2020 in direct response to the Black Lives Matter movement and the Covid-19 outbreak. Good progress was made, with key achievements including the design and launch of the global ethnicity inclusion programme, progression of the global disability confidence programme and the appointment of new executive sponsors for the 'Embrace' and 'Balance' employee resource groups. • We delivered phase one of the global diversity data project, which collected and reported employee ethnicity data in 21 countries and territories through a self-identification campaign. **Group Executive Committee succession planning** • Succession plans have been updated for all Group Executive Committee roles and approved by the Group Nomination & Corporate Governance Committee. • The Group also identified a number of enterprise critical roles across the organisation and succession plans have also been updated for these roles with approval from the Group Executive Committee. • The majority of 'ready now' and 'develop in role' successors on these plans have undergone leadership assessments with our third-party specialist provider, with all development plans documented. A global executive coaching panel is utilised and executive development solutions have been designed to be implemented in 2021.
Environment *Sustainable operations and sustainable finance*	• We reduced our carbon emission tonnes to 1.76 per full-time equivalent employee ('FTE'), beating the target of 2.0 tonnes per FTE we had set for 2020. It was recognised that reduced travel and increased working from home due to the Covid-19 outbreak impacted this outcome, and as a result, the performance assessment for this metric was revised down. • We exceeded our sustainable finance and investment target of $24bn by facilitating, financing and investing in the development of clean energy, lower-carbon technologies and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals. • We were recognised as 'The World's Best Bank for Sustainable Finance' by *Euromoney* in its Awards for Excellence 2020. • Awareness of climate change impacts across the organisation continued to increase, with 93% of relationship managers completing their required sustainability training modules.
Risk and compliance *Achieve effective management of non-financial risk Group-wide and fulfilment of regulatory obligations.* *Achieve sustained delivery against the Global Conduct framework and effective financial crime risk management.*	• In spite of the additional stress due to the operational challenges of the Covid-19 outbreak, enabled by the non-financial risk optimisation programme outcomes, the organisation maintained fair customer outcomes and a stable non-financial risk profile while implementing new products and adapting to significantly different ways of working. • In 2020, we completed our financial crime risk operational effectiveness exercise programme, with all countries having passed the Global Standards exit criteria and assurance. While there was year-on-year improvement in performance against a number of specific financial crime risk metrics, it was recognised that some further work is still required. The executive Directors demonstrated strong commitment to the conduct framework, maintaining focus on fair outcomes for our customers and market integrity. In 2020, this included initiatives to minimise the impact of the Covid-19 crisis and protect the business with rapid introduction of initiatives and mitigation against unacceptable levels of conduct risk.

Personal measures for the Group Chief Executive and Group Chief Financial Officer

Objectives	Performance
Group Chief Executive *Simplify the Group operating model*	• As part of the Group transformation programme, we commenced work on 'organisation simplification and design' by defining roles with clear accountabilities and decision rights, simplifying and minimising matrix reporting and realising transformation objectives through the redesign of certain structures across businesses and functions. • The programme successfully delivered all key milestones in 2020, including: the establishment of design principles to shape the future organisation model and structures; the creation of the Group Organisational Design Authority to drive consistent design thinking; the simplification of the Group Executive Committee and the introduction of a clear operating rhythm to increase discipline and focus on strategy and performance delivery; the redesign of the majority of top leadership structures; the definition of a consistent role taxonomy across business and functions; and the identification of reductions in FTEs and cost, principally at senior levels.
Group Chief Financial Officer • *Deploy Cloud technologies in Global Finance function* • *Reduce Finance function costs and number of full-time equivalents*	• The Finance on the Cloud programme will transform the way the Global Finance function operates by rationalising operational processes, automation of data production and providing faster delivery of comprehensive data to our internal and external stakeholders. The programme has progressed into the execution phase in 2020, with the programme design, scope and implementation approach approved. • The first phase of implementation, which relates to the risk-weighted assets reporting process for our UK entities, was successfully implemented in November 2020. Execution plans are in place for the further extension of Cloud technologies within the UK pilot in 2021, followed by a global deployment. • The target of reducing Finance function costs to $0.8bn was met, but the target number of full-time equivalent staff in the function was not achieved.

2017 long-term incentive performance

The 2017 LTI award was granted to Marc Moses (former Group Chief Risk Officer) and Iain Mackay (former Group Finance Director)[1].

Assessment of the LTI award in respect of 2017 (granted in 2018)

Measures (with weighting)	Minimum (25% payout)	Target (50% payout)	Maximum (100% payout)	Actual	Assessment	Outcome
Average return on equity (with CET1 underpin)[2] (20%)	9.0%	10.0%	11.0%	7.3%	0.0%	0.00%
Cost-efficiency ratio (20%)	60.0%	58.0%	55.5%	62.4%	0.0%	0.00%
Relative total shareholder return[3] (20%)	At median of peer group	Straight-line vesting between minimum and maximum	At upper quartile of peer group	Rank 11th	0.0%	0.00%
Risk and compliance[4] (25%) • Achieve and sustain compliance with Global Financial Crime Compliance policies and procedures. • Achieve a sustainable adoption of Group operation risk management framework, along with its policies and practices. • Achieve and sustain delivery of global conduct outcomes and compliance with conduct of business regulatory obligations.	Performance assessed by the Committee based on a number of qualitative and quantitative inputs such as Group Financial Crime Risk assessment against Financial Crime Compliance objectives, outcome of assurance and audit reviews, and achievement of long-term Group objectives and priorities during the performance period, with input and approval from the Group Risk Committee.			65.0%	65.0%	16.25%
Strategy (15%)						
Sustainable finance ($bn)[5]	30.0	34.0	37.0	93.0	100.0%	5.00%
Employee confidence[6]	65.0%	67.0%	70.0%	62.0%	0.0%	0.00%
Customer (based on customer recommendation in top five markets by revenue)	Improvement in recommendation in three of top five markets for WPB, CMB and GBM.	Improvement in recommendation in four of top five markets for WPB, CMB and GBM.	Improvement in recommendation in all of top five markets for WPB, CMB and GBM.	Improvement in three of top five markets	25.0%	1.25%
Total[7]						**22.50%**

1 *Based on the scorecard outcome, 29,655 shares will vest with Iain Mackay and 86,491 shares will vest with Marc Moses (determined by pro-rating their awards for time in employment during the performance period of 1 January 2018 to 31 December 2020). The awards will vest in five equal annual instalments commencing in March 2021. Using the average daily closing share prices over the three months to 31 December 2020 of £3.604 the value of awards to vest with Iain Mackay and Marc Moses is £106,877 and £311,714, respectively.*

2 *Significant items are excluded from the profit attributable to ordinary shareholders of the company for the purpose of computing adjusted return on equity.*

3 *The peer group for the 2017 award is: Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse Group, DBS Group Holdings, Deutsche Bank, JPMorgan Chase & Co., Lloyds Banking Group, Standard Chartered and UBS Group.*

4 *The performance outcome was reviewed and approved by the Group Risk Committee taking into account evidence of progress made during the three-year performance period. Specifically, it noted a steady improvement in financial crime risk related audit outcomes, a significant reduction of overdue and re-opened high and medium risk assurance issues and stabilisation of the global residual risk for anti-money laundering, sanctions, and anti-bribery and corruption. The non-financial risk optimisation programme made significant progress during 2020 to demonstrate operational risk management maturity in areas of focus. There was also a steady improvement in conduct ratings with significant improvement seen in Global Banking and Markets since 2018. The Group Risk Committee also noted the need for ongoing enhancements in certain areas and the need for further improvement in approach to conduct management.*

5 *Assessed based on cumulative financing and investment made to develop clean energy, lower-carbon technologies and projects that contribute to the delivery of the Paris Agreement and the UN Sustainable Development Goals.*

6 *Assessed based on results of the latest employee Snapshot survey question, 'I am seeing the positive impact of our strategy'.*

7 *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 the scorecard outcomes reflected the performance achieved.*

Long-term incentive awards

(Audited)

Long-term incentive in respect of 2020

After taking into account performance for 2020, the Committee decided to grant Noel Quinn and Ewen Stevenson LTI awards of £3,718,000 and £2,118,000, respectively. These awards will be subject to 'windfall gain' adjustments, as set out below. As the awards are not entitled to dividend equivalents in accordance with 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 2020 LTI awards will have a three-year performance period starting 1 January 2021. During this period, performance will be assessed based on the 2020 LTI scorecard comprising four equally-weighted measures: two financial measures to incentivise value creation for our shareholders; a measure linked to our climate ambitions; and a measure for relative total shareholder return ('TSR').

RoTE was retained as a metric as it remains a key measure of our financial performance and how we generate returns that deliver value for our shareholders. Given the uncertainty from the economic impact of the Covid-19 outbreak, the Committee determined it was most appropriate to assess RoTE at the end of the performance period. This element of the award will continue to be subject to a CET1 underpin.

Capital reallocation to Asia was added as a new metric as this is one of the key levers of our strategy and business transformation plan. This measure will be assessed based on the share of Group tangible equity allocated to Asia at the end of the performance period and is also subject to the CET1 underpin.

The environment and sustainability scorecard measure was added to align to our new climate ambition. Announced in October 2020, we set out how we aim to bring carbon emissions in our own operations to net zero by 2030 and support our customers in the transition to a more sustainable future with financing, facilitation and investments of $750bn to $1tn over the same time period. Scorecard targets are linked to this climate ambition and performance will be assessed based on the reduction in our carbon footprint and the financing we provide to our clients in their net zero transition.

Relative TSR was retained as a metric in the scorecard as it rewards executive Directors based on comparison of the total shareholder return performance of the Group and a relevant peer group. No changes were made to the peer group used for this purpose. Given the planned strategic shifts in our geographical and business mix, notably future growth investment in Asia and wealth business, we will review our peer group for any relative TSR measure to be used for the 2021 LTI scorecard. The updated peer group will be set out in the *Annual Report and Accounts 2021*.

The LTI continues to be subject to a risk and compliance modifier, which gives the Committee the discretion to adjust down the overall scorecard outcome to ensure that the Group operates soundly when achieving its financial targets. For this purpose, the Committee will receive information including any risk metrics 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.

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 social 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 2020

Measures		Minimum (25% payout)	Target (50% payout)	Maximum (100% payout)	Weighting %
RoTE (with CET1 underpin)[1]		8.0%	9.0%	10.0%	25.0
Capital reallocation to Asia (with CET1 underpin)[2]		45.0%	47.0%	50.0%	25.0
Environment and sustainability[3]	**Carbon reduction**	42.0%	48.0%	51.0%	25.0
	Sustainable finance and investment $bn	200.0	240.0	260.0	
Relative TSR[4]		At median of the peer group	Straight-line vesting between minimum and maximum	At upper quartile of peer group	25.0

1 *To be assessed based on RoTE at the end of the performance period. The measure will also be subject to a CET1 underpin. If the CET1 ratio at the end of the 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 share of Group tangible equity (on a constant currency basis and excluding associates) allocated to Asia by 31 December 2023. This metric will be measured on an organic basis and will exclude changes in Group tangible equity allocation resulting from acquisitions and disposals (and also part-acquisitions or part-disposals) of businesses and is subject to the CET1 underpin outlined above.*

3 *Carbon reduction will be measured based on percentage reduction in total energy and travel emissions achieved by 31 December 2023 using 2019 as the baseline. A sustainable finance and investment metric will assess cumulative financing provided over the period commencing on 1 January 2020 and ending on 31 December 2023.*

4 *The peer group for the 2020 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.*

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

2020 LTI grant size

The Committee is conscious of the external commentary on 'windfall gains' from LTI awards given the impact of the Covid-19 outbreak. The Committee is also aware that a number of investors have expressed their preference that, where executives may benefit from 'windfall gains', the Committee is proactive in considering award levels at the time of grant. Based on the above and discussions with investors and proxy voting agencies, the Committee agreed that the 2020 LTI awards should be subject to a 'windfall gain' adjustment at grant if the share price falls significantly relative to the grant price of the 2019 LTI. This is to ensure reward for our executive Directors aligns with the experience of our shareholders and is reflective of management performance over the performance period. While the share price to be used for the 2020 LTI award is not known at this stage, the Committee agreed that, in line with investor expectations, if the 2020 LTI grant share price experiences a greater than 30% decline since the previous grant, this would be considered a material fall in share price (based on review of historical share price volatility and the impact of significant external macroeconomic events). In such an event, an adjustment percentage equal to half the share price percentage decline will be applied to the awards to mitigate the potential for 'windfall gains'. This approach will apply to the 2020 LTI award to be granted in 2021.

2018 long-term incentive award

The LTI granted in respect of 2018 included an ESG measure based on our objective disclosed in the Strategy Update in June 2018 to achieve an 'Outperformer' rating from ratings provider Sustainalytics. Our 2018 Directors' remuneration report noted that in the event Sustainalytics changed its rating approach, the Committee retained the discretion to review and modify the assessment approach and targets to ensure the assessment approach achieved its original purpose.

Sustainalytics has since revised its methodology and replaced 'performer' ratings with low, medium and high risk ratings. In 2020, the Committee approved a revised assessment approach and targets that aim for HSBC to 'outperform' a set of peers using Sustainalytics' revised risk-based rating as detailed in the table below. The Committee is comfortable that the proposed targets are no more or less difficult to achieve than the original proposed targets.

Performance conditions for LTI awards in respect of 2018

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]	At median of the peer group	Straight-line vesting between minimum and maximum	At upper quartile of peer group	12.5

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 *Peer group (in line with TSR peer group for the 2017 LTI, including three additional peers): Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse Group, Deutsche Bank, DBS Group Holdings, J.P. Morgan Chase & Co., Lloyds Banking Group, Standard Chartered, UBS Group, ICBC, Itau and Santander.*

Scheme interests awarded during 2020

(Audited)

The table below sets out the scheme interests awarded to Directors in 2020, as disclosed in the 2019 Directors' remuneration report. No non-executive Directors received scheme interests during the financial year.

Scheme awards in 2020
(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
Ewen Stevenson	LTI deferred shares[2]	% of salary [2]	**24 February 2020**	**2,680**	**25**	**476,757**	**31 December 2022**
Noel Quinn	Deferred shares [3]	Annual incentive	**24 February 2020**	**1,134**	**—**	**201,702**	**31 December 2019**
	Deferred cash [3]	Annual incentive	**24 February 2020**	**886**	**—**	**N/A**	**31 December 2019**

1 *The face value of the award has been computed using HSBC's closing share price of £5.622 taken on 21 February 2020. LTI awards are subject to a three-year forward-looking performance period and vest in five equal annual instalments, between the third and seventh anniversary of the award date, 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.*
2 *In line with regulatory requirements, scheme interests awarded during 2020 were not eligible for dividend equivalents. In accordance with the remuneration policy approved by shareholders at the 2019 AGM, the LTI award was determined at 290% of salary for Ewen Stevenson 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. £4.393). Noel Quinn did not receive the 2019 LTI award that was granted on 24 February 2020, as he was in the Group Chief Executive role in an interim capacity during 2019.*
3 *2019 annual incentive award received by Noel Quinn for his role as Chief Executive Officer of Commercial Banking and interim Group Chief Executive. As noted in the* Annual Report and Accounts 2019*, 60% of his annual incentive award was deferred and in line with regulatory requirements split between cash and shares. 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. £4.393).*

The above table does not include details of shares issued as part of the fixed pay allowance and shares issued as part of the 2020 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 2019 are set out on the following page.

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: • 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 • 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.*

Executive Directors' interests in shares

(Audited)

The shareholdings of all persons who were executive Directors in 2020, including the shareholdings of their connected persons, at 31 December 2020 (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 2020 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 2020				
			Scheme interests			
					Shares awarded subject to deferral[1]	
	Shareholding guidelines (% of salary)	Shareholding at 31 Dec 2020[2] (% of salary)	Share interests (number of shares)	Share options[3]	without performance conditions[4]	with performance conditions[5]
Executive Directors						
Noel Quinn[6]	400%	**221 %**	**778,958**	**–**	**554,556**	**–**
Ewen Stevenson[6]	300%	**265 %**	**545,731**	**–**	**728,790**	**476,757**
Group Managing Directors[6]	250%	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

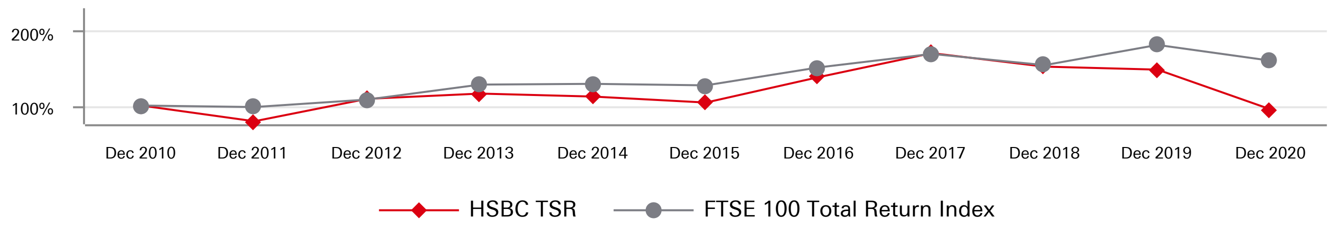
1 *The gross number of shares is disclosed. A portion of these shares will be sold at vesting to cover any income tax and social security that falls due at the time of vesting.*
2 *The value of the shareholding is calculated using an average of the daily closing share prices in the three months to 31 December 2020 (£3.604).*
3 *As at 31 December 2020, Noel Quinn and Ewen Stevenson did not hold any options under the HSBC Holdings Savings-Related Share Option Plan (UK).*
4 *The amount for Ewen Stevenson reflects the award granted in May 2019, replacing the 2015 to 2018 LTIs forfeited by the Royal Bank of Scotland Group plc ('RBS') and is subject to any performance adjustments assessed and disclosed in the relevant Annual Report and Accounts of RBS.*
5 *LTI awards granted in February 2020 are subject to the performance conditions as set out on page 244.*
6 *All Group Managing Directors and executive Directors are expected to meet their shareholding guidelines within five years of the date of their appointment (Noel Quinn and Ewen Stevenson were appointed on 5 August 2019 and 1 January 2019 respectively).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.*

Summary of shareholder return and Group Chief Executive remuneration

The following graph shows HSBC TSR performance (based on the daily spot Return Index in sterling) against the FTSE 100 Total Return Index for the 10-year period ended 31 December 2020.

The FTSE 100 Total Return Index has been chosen as 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 LTI awards, are presented in the following table.

HSBC TSR and FTSE 100 Total Return Index



	2011	2012	2013	2014	2015	2016	2017	2018		2019		2020
Group Chief Executive	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	Stuart Gulliver	John Flint	John Flint	Noel Quinn	**Noel Quinn**
Total single figure £000	8,047	7,532	8,033	7,619	7,340	5,675	6,086	2,387	4,582	2,922	1,977	**4,154**
Annual incentive[1] (% of maximum)	58%	52%	49%	54%	45%	64%	80%	76%	76%	61%	66%	**32%**
Long-term incentive[1,2,3] (% of maximum)	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 Group Performance Share Plan ('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.*
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. Noel Quinn did not receive the 2017 LTI award that had a performance period ended on 31 December 2020.*

Comparison of Directors' and employees' pay

The following table compares the changes in each Director's pay with changes in employee pay between 2019 and 2020.

Annual percentage change in remuneration

		2020	
Director/employees	**Base salary/fees**	**Benefits**	**Annual incentive**
Executive Directors[1]			
Noel Quinn[1]	151.7%	353.7%	20.2%
Ewen Stevenson	2.6%	-25.0%	-58.4%
Non-executive Directors[2]			
Kathleen Casey (retired on 24 April 2020)	-65.0%	200.0%	-
Laura Cha	97.0%	-	-
Henri de Castries	4.1%	-75.0%	-
James Forese	-	-	-
Steven Guggenheimer	-	-	-
Irene Lee	20.3%	-100.0%	-
José Antonio Meade Kuribreña	28.7%	100.0%	-
Heidi Miller	1.1%	-100.0%	-
Eileen Murray	-	-	-
David Nish	108.7%	-50.0%	-
Sir Jonathan Symonds (retired on 18 February 2020)	-86.5%	-4.8%	-
Jackson Tai	-10.8%	-78.9%	-
Mark Tucker	—%	-77.5%	-
Pauline van der Meer Mohr	17.7%	-75.0%	-
Employee group[3]	**2.0%**	**2.3%**	**-20.0%**

1 *Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and was appointed permanently into the role on 17 March 2020. The annual percentage change for Noel Quinn is based on remuneration reported in his 2019 single figure of remuneration (for the period 5 August 2019 to 31 December 2019) and his 2020 single figure of remuneration (for the period 1 January 2020 to 31 December 2020). Based on his annualised 2019 compensation as an executive Director, his percentage change in salary, benefits and annual incentive is 2.1%, 85.2% and -50.9%, respectively.*
2 *In some instances, non-executive Directors may have served only part of the year resulting in large year-on-year percentage changes in fees and/ or benefits. Page 248 provides the underlying single figure of remuneration for non-executive Directors used to calculate the figures above.*
3 *Employee group consists of individuals employed by HSBC Group Management Services Ltd, the employing entity of the executive Directors, as no individuals are employed directly by HSBC Holdings.*

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
2020	A	139:1	85:1	43:1
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
2020	A	29,833	23,264	48,703	36,972	96,386	75,000
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 2020. 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 individual 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 2020;
- variable pay awards for 2020, including notional returns paid during 2020;
- 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 2020. 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 used for this purpose is the total remuneration for Noel Quinn as reported in the single figure of remuneration table. Total remuneration does not include an LTI as he has not received an LTI award with a performance period that ended during 2020. 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.

The decrease in median ratio is primarily driven by the lower annual incentive award for the Group Chief Executive, reflecting the lower scorecard outcome and the voluntary waiver of the cash portion of the award. Without this waiver, the median ratio is 102:1.

While total compensation for the Group Chief Executive declined compared with 2019, total pay and benefits for the median employee for 2020 was 5% higher at £48,703 compared with 2019.

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 Group.

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.

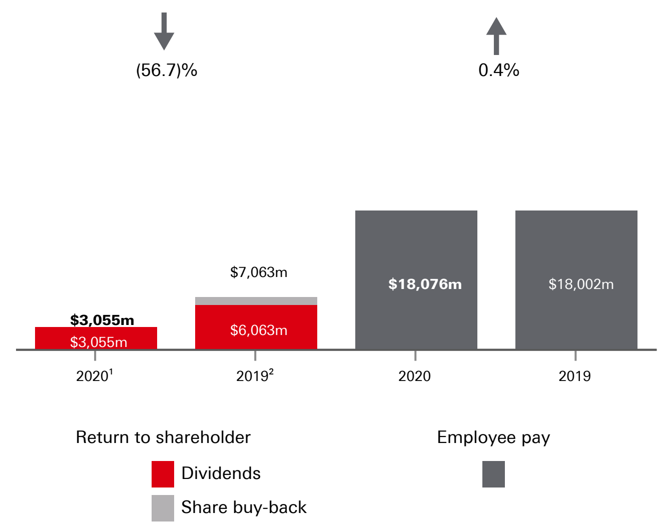
Relative importance of spend on pay

The following chart shows the change in:

- total staff pay between 2019 and 2020; and
- dividends in respect of 2019 and 2020.

In 2019, we returned a total of $1bn to ordinary shareholders through share buy-backs.

Relative importance of spend on pay



1 *The fourth interim dividend of 2020, of $0.15 per ordinary share, is an approximation of the amount payable on 29 April 2021.*
2 *The fourth interim dividend of 2019, of $0.21 per ordinary share, was cancelled in response to a written request from the UK's Prudential Regulation Authority ('PRA'). The 2019 dividends have been re-presented accordingly.*

Non-executive Directors

(Audited)

The following table shows the total fees and benefits of non-executive Directors for 2020, together with comparative figures for 2019.

Fees and benefits

(Audited)		Fees[1]		Benefits[2]		Total	
(£000)	Footnotes	**2020**	2019	**2020**	2019	**2020**	2019
Kathleen Casey (retired on 24 April 2020)	3,4	**78**	223	**27**	9	**105**	232
Laura Cha	5	**587**	298	**—**	—	**587**	298
Henri de Castries		**202**	194	**1**	4	**203**	198
James Forese	6	**160**	—	**—**	—	**160**	—
Steven Guggenheimer	7	**134**	—	**—**	—	**134**	—
Irene Lee	8	**546**	454	**—**	3	**546**	457
José Antonio Meade Kuribreña		**202**	157	**4**	2	**206**	159
Heidi Miller	9	**632**	625	**7**	2	**639**	627
Eileen Murray	10	**120**	—	**—**	—	**120**	—
David Nish	11	**480**	230	**8**	16	**488**	246
Sir Jonathan Symonds (retired on 18 February 2020)		**86**	638	**20**	21	**106**	659
Jackson Tai	12	**355**	398	**12**	57	**367**	455
Mark Tucker	13	**1,500**	1,500	**52**	231	**1,552**	1,731
Pauline van der Meer Mohr	14	**312**	265	**2**	8	**314**	273
Total (£000)		**5,394**	4,982	**133**	353	**5,527**	5,335
Total ($000)		**6,919**	6,390	**171**	453	**7,090**	6,843

1 *The Directors' 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. Given the travel restrictions in place, the Board was unable to travel to attend meetings in person. Therefore, the travel allowance available to all non-executive Directors was pro-rated to reflect the travel required of the Board during 2020.*
2 *Benefits include taxable expenses such as accommodation, travel and subsistence relating to attendance at Board and other meetings at HSBC Holdings' registered offices. Amounts disclosed have been grossed up using a tax rate of 45%, where relevant.*
3 *Appointed as a member of the Group Risk Committee on 17 January 2020.*
4 *Stepped down as a member of the Financial System Vulnerabilities Committee on 17 January 2020 when the Committee was demised.*
5 *Includes fees of £423,800 (2019: £104,000) for her role as non-executive Chair and member of the Nomination Committee of The Hongkong and Shanghai Banking Corporation. Following approval of the non-executive Chair fee by the Group Remuneration Committee in 2020, Laura also received a pro-rated additional Chair fee of HK$201,639 paid in respect of the period from 6 December to 31 December 2019.*
6 *Appointed to the Board and a member of the Group Audit Committee, Group Remuneration Committee and Nomination & Corporate Governance Committee on 1 May 2020.*
7 *Appointed to the Board and as a member of the Group Risk Committee and Nomination & Corporate Governance Committee on 1 May 2020.*
8 *Includes fees of £344,000 (2019: £260,000) in relation to her roles as a Director, Remuneration Committee Chair, Audit Committee member and Risk Committee member of The Hongkong and Shanghai Banking Corporation Limited. Fees in relation to her role as a Director, Risk Committee Chair and Audit Committee member, and from 28 December 2020 as a member of the Nomination Committee, of Hang Seng Bank Limited.*
9 *Includes fees of £430,000 (2019: £431,000) in relation to her role as Chair of HSBC North America Holdings Inc.*
10 *Appointed to the Board and as member of the Group Audit Committee, Group Risk Committee and Nomination & Corporate Governance Committee on 1 July 2020.*
11 *Appointed as Senior Independent Director, Chair of the Group Audit Committee and member of the Group Risk Committee on 18 February 2020.*
12 *Stepped down as Chair of the Financial System Vulnerabilities Committee on 17 January 2020 when the Committee was demised.*
13 *The Group Chairman donated 100% of his 2020 fee to charities in the UK and Hong Kong supporting vulnerable people and in the local response to Covid-19.*
14 *Appointed as a member of the Group Audit Committee on 19 February 2020.*

Non-executive Directors' interests in shares

(Audited)

The shareholdings of persons who were non-executive Directors in 2020, including the shareholdings of their connected persons, at 31 December 2020, 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 2020 met the guidelines except Irene Lee, who has committed to acquiring the remaining shares as soon as possible, and no later than the conclusion of the 2021 AGM.

Shares

	Shareholding guidelines (number of shares)	**Share interests (number of shares)**
Kathleen Casey (retired on 24 April 2020)	15,000	**15,125**
Laura Cha	15,000	**16,200**
Henri de Castries	15,000	**19,251**
James Forese (appointed to the Board on 1 May 2020)	15,000	**115,000**
Steven Guggenheimer (appointed to the Board on 1 May 2020)	15,000	**15,000**
Irene Lee	15,000	**11,904**
José Antonio Meade Kuribreña	15,000	**15,000**
Heidi Miller	15,000	**15,700**
Eileen Murray (appointed to the Board on 1 July 2020)	15,000	**75,000**
David Nish	15,000	**50,000**
Sir Jonathan Symonds (retired on 18 February 2020)	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

2020 Annual General Meeting voting results

	For	Against	Withheld
Remuneration report (votes cast)	**96.47 %** **8,842,653,970**	**3.53 %** **323,238,790**	**—** **36,605,397**
Remuneration policy (2019) (votes cast)	97.36% 9,525,856,097	2.64% 258,383,075	— 47,468,297

2021 annual incentive scorecards

The 2021 annual incentive scorecard measures for our executive Directors have been set against the backdrop of the continuing impact of the Covid-19 outbreak on the global economy; geopolitical risks, particularly those relating to trade and other tensions; and expectations that global interest rates will remain lower for longer. In this context, the Committee determined the scorecard measures should incentivise adapting our business model to a protracted, low interest-rate environment; reducing our operating costs; and transforming the Group.

Therefore, the 2021 annual incentive scorecard includes financial measures linked to the reduction of the Group's cost base, the reduction of assets in low-return areas and the creation of opportunities in our high-growth areas. The scorecard also includes non-financial measures linked to delivering against our customer and employee objectives.

The Committee will continue to retain discretion to adjust down the formulaic outcomes of scorecards, taking into account factors such as Group profits, wider business performance and stakeholder experience, to ensure alignment between executive reward and the broader stakeholder experience.

The weightings and performance measures for the 2021 annual incentive award for executive Directors are disclosed below. The performance targets 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.

The 2021 annual incentive scorecards for our Group Managing Directors include similar measures as the executive Directors to drive performance in each of our businesses, functions and regions that contribute to the overall success of the Group. Their annual incentive scorecards will also include RoTE and environmental measures, which are aligned with achieving the three-year forward-looking performance targets in the 2020 LTI.

2021 annual incentive scorecards measures and weightings

Measures	Group Chief Executive %	Group Chief Financial Officer %
Adjusted costs	**20.0**	**20.0**
Revenue growth in Asia	**20.0**	**15.0**
RWA reduction in legacy assets/low-return areas	**20.0**	**15.0**
Customer satisfaction	**15.0**	**15.0**
Employee experience	**15.0**	**15.0**
Personal objectives[1]	**10.0**	**20.0**
Total	**100.0**	**100.0**

1 *For the Group Chief Executive, this includes the launch of our refreshed purpose and values, and the delivery of strategy at pace (equally weighted at 5% each). For the Group Chief Financial Officer, this includes Finance Cloud deployment, resolvability assessment framework attestation, climate stress tests, and Group Finance costs and FTE (equally weighted at 5% each).*

The 2021 annual incentive scorecard is subject to a risk and compliance modifier, which allows the Committee the discretion to adjust down the overall scorecard outcome to ensure that the Group operates soundly 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.

2021 long-term incentives

Details of the performance measures and targets for LTI awards to be made in 2021, in respect of 2020, are provided on page 243.

The performance measures and targets for awards to be made in respect of 2021, granted in 2022, will be provided in the *Annual Report and Accounts 2021.*

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 the 2017 LTI outcome, in which Marc Moses (former Group Chief Risk Officer) and Iain Mackay (former Group Finance Director) participated, are outlined on page 242. No 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

(Audited)

No payments for loss of office were made to, or in respect of, former or current Directors in the year.

External appointments

During 2020, executive Directors did not receive any fees from external appointments.

Remuneration structure for our Group employees

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 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. • Fixed pay represents a higher proportion of total compensation for more junior employees. • 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. • Fixed pay is generally delivered in cash on a monthly basis.
Benefits 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] 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 against a balanced scorecard for performance in excess of that required to fulfil an employee's job description. • 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. • Variable pay awards for all Group employees identified as Material Risk Takers ('MRTs') under European Union Regulatory Technical Standard ('RTS') 604/2014 are limited to 200% of fixed pay.[2] • 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. • A portion of the annual incentive award may be deferred and vest over a period of three to eight years.
Deferral 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. • 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: – 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 – 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. • 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). • 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. • 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. • 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 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. • 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, for local MRTs in Brazil and Oman 100% of the deferred amount is delivered in shares or linked to the value of shares. • 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 award 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 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. • 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 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. • 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 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. • 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 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. • 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. • 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. • Severance amounts awarded to MRTs are not considered as variable pay for the purpose of application of the deferral and variable pay cap rules under the PRA and FCA remuneration rules 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 235.*
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 not used the EBA discount rate for the purpose of computing the ratio between fixed and variable components of 2020 total remuneration.*
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. The main quantitative and qualitative performance and risk metrics used for assessment of performance include: • Group and business unit financial performance, including capital requirements; • current and future risks, taking into consideration performance against the risk appetite statement ('RAS'), annual operating plan and global conduct outcomes; • fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit; and • assessment of individual performance with reference to a balanced scorecard of clear and relevant objectives. Objectives included in the performance scorecards of senior management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity targets; and risk and compliance measures. 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. • The Committee is responsible for approving the remuneration recommendations for the Group Chief Risk Officer and senior management in control functions. • 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. • 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: – detrimental conduct, including conduct that brings HSBC into disrepute; – involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and – non-compliance with the HSBC Values and other mandatory requirements or policies. • 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: • detrimental conduct, including conduct that brings the business into disrepute; • past performance being materially worse than originally reported; • restatement, correction or amendment of any financial statements; and • 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: • participation in, or responsibility for, conduct that results in significant losses; • failing to meet appropriate standards and propriety; • reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and • 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: – MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level. – MRTs are also identified at other solo regulated entity level as required by the regulations. – 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. • 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 include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the criteria prescribed in the RTS. • 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. • 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 Executive Committee 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 2020 variable pay information included in the following tables is based on the market value of awards. 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	2	2.8	3.4	6.2	–	–	11.2	*9.6*	–	–	11.2	17.4
Non-executive Directors	12	7.0	–	7.0	–	–	–	–	–	–	–	7.0
Senior management	15	32.9	–	32.9	17.1	*10.3*	19.6	*12.8*	–	–	36.7	69.6
Investment banking	541	342.4	–	342.4	130.6	*65.7*	138.6	*74.6*	–	–	269.2	611.6
Retail banking	194	104.2	–	104.2	34.8	*15.2*	34.8	*17.5*	–	–	69.6	173.8
Asset management	33	20.5	–	20.5	8.1	*3.8*	5.7	*3.0*	2.7	*1.8*	16.5	37.0
Corporate functions	124	69.9	–	69.9	22.5	*10.4*	23.2	*11.9*	–	–	45.7	115.6
Independent control functions	145	67.6	1.2	68.8	18.0	*6.1*	14.9	*7.6*	–	–	32.9	101.7
All other	83	64.3	1.3	65.6	17.7	*9.0*	18.5	*10.3*	–	–	36.2	101.8
Total	1,149	711.6	5.9	717.5	248.8	*120.5*	266.5	*147.3*	2.7	*1.8*	518.0	1,235.5

1 Cash-based fixed remuneration is paid immediately.
2 Variable pay awarded in respect of 2020. 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 In general, 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	–	–	–	–	–	–	–
Investment banking	0.5	1	36.6	38	7.3	35.0	37
Retail banking	0.9	1	5.3	11	1.8	4.6	11
Asset management	–	–	1.9	4	1.0	1.9	4
Corporate functions	1.0	1	5.8	12	2.0	5.8	12
Independent control functions	–	–	4.2	10	0.7	3.6	9
All other	–	–	4.4	6	1.3	4.4	6
Total	2.4	3	58.2	81	–	55.3	79

1 No sign-on payments were made in 2020. 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	3.6	3.6	3.6	–	–	0.1
Senior management	27.4	27.4	27.4	–	–	5.1
Investment banking	195.0	195.0	195.0	–	–	62.7
Retail banking	41.9	41.9	41.9	–	–	10.2
Asset management	8.1	8.1	8.1	–	–	3.4
Corporate functions	35.0	35.0	35.0	–	–	9.7
Independent control functions	23.6	23.6	23.6	–	–	4.5
All other	30.2	30.2	30.2	–	–	8.7
Shares						
Executive Directors	9.7	9.1	9.7	(5.4)	–	2.5
Senior management	25.7	22.4	25.7	(12.7)	–	11.6
Investment banking	183.3	146.0	183.3	(90.5)	–	130.6
Retail banking	45.9	38.1	45.9	(22.6)	–	29.1
Asset management	5.6	4.2	5.6	(2.7)	–	4.3
Corporate functions	39.5	31.5	39.5	(19.6)	–	26.5
Independent control functions	28.8	26.2	28.8	(14.5)	–	18.0
All other	35.2	27.7	35.2	(17.4)	–	20.4
Other forms						
Executive Directors	–	–	–	–	–	–
Senior management	–	–	–	–	–	–
Investment banking	–	–	–	–	–	–
Retail banking	–	–	–	–	–	–
Asset management	7.0	5.6	7.0	0.3	–	1.7
Corporate functions	0.8	0.7	0.8	0.1	–	0.3
Independent control functions	0.2	0.1	0.2	–	–	0.1
All other	–	–	–	–	–	–

1 *This table provides details of balances and movements during performance year 2020. For details of variable pay awards granted for 2020, refer to the 'Remuneration – fixed and variable 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 2020.*

3 *Includes any amendments due to malus or clawback.*

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	814	825
€1,000,000 – 1,500,000	–	179	179
€1,500,000 – 2,000,000	1	76	77
€2,000,000 – 2,500,000	–	27	27
€2,500,000 – 3,000,000	–	13	13
€3,000,000 – 3,500,000	–	11	11
€3,500,000 – 4,000,000	–	7	7
€4,000,000 – 4,500,000	–	1	1
€4,500,000 – 5,000,000	–	1	1
€5,000,000 – 6,000,000	1	3	4
€6,000,000 – 7,000,000	–	3	3
€7,000,000 – 8,000,000	–	–	–
€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 2020 are set out below.

Emoluments

	Noel Quinn		Ewen Stevenson		Non-executive Directors	
	2020	2019	**2020**	2019	**2020**	2019
	£000	£000	**£000**	£000	**£000**	£000
Basic salaries, allowances and benefits in kind	**3,338**	1,312	**1,806**	1,820	**5,527**	5,335
Pension contributions	**—**	—	**—**	—	**—**	—
Performance-related pay paid or receivable[1]	**4,517**	665	**2,568**	3,176	**—**	—
Inducements to join paid or receivable	**—**	—	**1,431**	1,974	**—**	—
Compensation for loss of office	**—**	—	**—**	—	**—**	—
Notional return on deferred cash	**17**	—	**—**	—	**—**	—
Total	**7,872**	1,977	**5,805**	6,970	**5,527**	5,335
Total ($000)	**10,097**	2,522	**7,446**	8,890	**7,090**	6,843

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 2020 was $24,624,520. 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, provision of company owned-accommodation 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 £5,859 ($7,515), Stuart Gulliver valued at £5,859 ($7,515) and John Flint valued at £4,784 ($6,136). Tax support fees of £460 ($590) were also provided to Stuart Gulliver, giving a total aggregate value of £16,962 ($21,756) for benefits provided to past directors. 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 two former Directors of $413,160. The provision at 31 December 2020 in respect of unfunded pension obligations to former Directors amounted to $7,821,639.

Emoluments of senior management and five highest paid employees

The following tables set out the details of emoluments paid to senior management, which in this case comprises executive Directors and members of the Group Executive Committee, for the year ended 31 December 2020, or for the period of appointment in 2020 as a Director or member of the Group Executive Committee. 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 2020, are also presented.

Emoluments

£000s	Five highest paid employees	Senior management
Basic salaries, allowances and benefits in kind	**13,319**	**36,831**
Pension contributions	**15**	**57**
Performance-related pay paid or receivable[1]	**17,310**	**34,431**
Inducements to join paid or receivable	**—**	**1,308**
Compensation for loss of office	**—**	**848**
Total	**30,644**	**73,475**
Total ($000)	**39,307**	**94,247**

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
$1,500,001 – $2,000,000	$193,397 – $257,863	**—**	**1**
$4,500,001 – $5,000,000	$580,191 – $644,657	**—**	**1**
$9,000,001 – $9,500,000	$1,160,382 – $1,224,848	**—**	**1**
$9,500,001 – $10,000,000	$1,224,848 – $1,289,313	**—**	**1**
$10,000,001 – $10,500,000	$1,289,314 – $1,353,779	**—**	**1**
$13,500,001 – $14,000,000	$1,740,573 – $1,805,039	**—**	**1**
$15,000,001 – $15,500,000	$1,933,970 – $1,998,436	**—**	**1**
$24,500,001 – $25,000,000	$3,158,818 – $3,223,284	**—**	**1**
$27,000,001 – $27,500,000	$3,481,146 – $3,545,612	**—**	**1**
$28,000,001 – $28,500,000	$3,610,078 – $3,674,543	**—**	**1**
$28,500,001 – $29,000,000	$3,674,543 – $3,739,009	**—**	**1**
$29,000,001 – $29,500,000	$3,739,009 – $3,803,475	**—**	**2**
$30,000,001 – $30,500,000	$3,867,940 – $3,932,406	**—**	**1**
$41,000,001 – $41,500,000	$5,286,185 – $5,350,651	**—**	**1**
$43,500,001 – $44,000,000	$5,608,514 – $5,672,979	**—**	**1**
$44,000,001 – $44,500,000	$5,672,979 – $5,737,445	**—**	**1**
$44,500,001 – $45,000,000	$5,737,445 – $5,801,910	**—**	**1**
$48,500,001 – $49,000,000	$6,253,170 – $6,317,636	**—**	**1**
$49,000,001 – $49,500,000	$6,317,636 – $6,382,101	**—**	**1**
$50,500,001 – $51,000,000	$6,511,033 – $6,575,499	**1**	**1**
$54,500,001 – $55,000,000	$7,026,758 – $7,091,224	**2**	**—**
$66,500,001 – $67,000,000	$8,573,934 – $8,638,400	**1**	**1**
$78,000,001 – $78,500,000	$10,056,645 – $10,121,110	**1**	**1**

Share capital and other related disclosures

Share buy-back programme

HSBC Holdings did not announce a share buy-back to purchase its ordinary shares of $0.50 each during the year.

Dividends

Dividends for 2020

On 31 March 2020, HSBC announced that, in response to a written request from the Bank of England through the Prudential Regulation Authority ('PRA'), the Board had cancelled the fourth interim dividend for 2019. Similar requests were also made to other UK incorporated banking groups. We also announced that until the end of 2020 we would make no quarterly or interim dividend payments or accruals in respect of ordinary shares.

In December 2020, the PRA announced a temporary approach to shareholder distributions for 2020 in which it set out a framework for board decisions on dividends. On 23 February 2021, after considering the requirements of the temporary approach, the Directors approved an interim dividend for 2020 of $0.15 per ordinary share. The interim dividend will be payable on 29 April 2021 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 19 April 2021.

The 2020 interim dividend will be paid in cash with no scrip alternative. The Group has decided to discontinue the scrip dividend option as it is dilutive, including to dividend per share progression over time.

As the interim dividend for 2020 was approved after 31 December 2020, it has not been included in the balance sheet of HSBC as a liability. The distributable reserves of HSBC Holdings at 31 December 2020 were $31.3bn.

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 16 March, 16 June, 15 September and 15 December 2020. The Series A dollar preference shares were redeemed on 13 January 2021.

Dividends for 2021

In December 2020, the PRA also announced that it intends to transition back to its standard approach to capital setting and shareholder distributions through 2021. In the meantime, for 2021 dividends the PRA is content for appropriately prudent dividends to be accrued but not paid out. The PRA aims to provide a further update ahead of the 2021 half-year results of large UK banks.

The Group will not pay quarterly dividends during 2021 but will consider whether to announce an interim dividend at the 2021 half-year results in August.

The Group will review whether to revert to paying quarterly dividends at or ahead of its 2021 results announcement in February 2022.

A dividend of £0.01 per Series A sterling preference share was approved on 23 February 2021 for payment on 15 March 2021.

Share capital

Issued share capital

The nominal value of HSBC Holdings' issued share capital paid up at 31 December 2020 was $10,346,810,550 divided into 20,693,621,100 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 100.00%, 0.00%, and 0.00% respectively of the nominal value of HSBC Holdings' total issued share capital paid up at 31 December 2020. The 1,450,000 non-cumulative preference shares of $0.01 each were redeemed on 13 January 2021.

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/who-we-are/leadership-and-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.

Information on the policy adopted by the Board for paying interim dividends on the ordinary shares may be found in the 'Shareholder information' section on page 371.

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. There were no dividends waived during 2020 as there were no dividends paid on ordinary shares during 2020.

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: non-cumulative US dollar preference shares 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 sterling preference share in issue is a Series A sterling preference share. There are no dollar preference shares or euro preference shares in issue.

Information on dividends approved for 2020 and 2021 may be found in Note 8 on the financial statements on page 309.

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 2020

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

Scrip dividends

There were no scrip dividends issued during the year.

All-employee share plans

	Number	Aggregate nominal value	Exercise price from	to
		$	£	£
HSBC Holdings Savings-Related Share Option Plan (UK)				
HSBC ordinary shares issued in £	1,387,599	693,800	2.6270	5.9640
Options over HSBC ordinary shares lapsed	44,189,936	22,094,968		
Options over HSBC ordinary shares granted in response to approximately 29,048 applications from HSBC employees in the UK on 24 September 2020	111,469,393	55,734.697		

	HSBC Holdings ordinary shares issued	Aggregate nominal value	Market value per share from	to
		$	£	£
HSBC International Employee Share Purchase Plan	679,640	339,820	3.0855	5.9140

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	53,029,316	26,514,658	3.2290	5.6220

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

At the AGM in 2020, shareholders renewed the general authority for the Directors to allot new shares up to 13,554,626,552 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 2,033,193,983 ordinary shares, which was not exercised during the year.

In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, no more than 4,066,387,966 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. For further details on the issue of contingent convertible securities, see Note 31 on the financial statements.

Other than as disclosed in the tables above headed 'Share capital changes in 2020', the Directors did not allot any shares during 2020.

Debt securities

In 2020, HSBC Holdings issued the equivalent of $15.95bn 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 further details of capital instruments and bail-inable debt, see Notes 28 and 31 on pages 344 and 353.

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 2020, 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 2020, representing 1.57% of the shares in issue as at 31 December 2020. The nominal value of shares held in treasury was $162,636,704.

Notifiable interests in share capital

At 31 December 2020, 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 3 March 2020 that on 2 March 2020 it had the following: an indirect interest in HSBC Holdings ordinary shares of 1,235,558,490; qualifying financial instruments with 7,294,459 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 2,441,397 voting rights, representing 6.07%, 0.03% and 0.01%, respectively, of the total voting rights at 2 March 2020.

No further notifications had been received pursuant to the requirements of Rule 5 of the Disclosure, Guidance and Transparency Rules between 31 December 2020 and 15 February 2021.

At 31 December 2020, 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 1 September 2020 that on 27 August 2020 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,477,023,361 shares and a short position of 38,760,188 shares, representing 7.14% and 0.19%, respectively, of the ordinary shares in issue at that date.
- Ping An Asset Management Co., Ltd, gave notice on 25 September 2020 that on 23 September 2020 it had a long position of 1,655,479,531 in HSBC Holdings ordinary shares, representing 8.00% 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 2020 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 2020.

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 2020 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 2020 or date of cessation, if earlier				
	Footnotes	**At 1 Jan 2020, 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 (retired on 24 April 2020)	*1*	**15,125**	**15,125**	**—**	**—**	**—**	**15,125**
Laura Cha		**16,200**	**16,200**	**—**	**—**	**—**	**16,200**
Henri de Castries		**19,251**	**19,251**	**—**	**—**	**—**	**19,251**
James Forese (appointed to the Board on 1 May 2020)	*1*	**—**	**115,000**	**—**	**—**	**—**	**115,000**
Steven Guggenheimer (appointed to the Board on 1 May 2020)	*1,4*	**—**	**—**	**—**	**15,000**	**—**	**15,000**
Irene Lee		**11,904**	**11,904**	**—**	**—**	**—**	**11,904**
José Antonio Meade Kuribreña	*1*	**—**	**15,000**	**—**	**—**	**—**	**15,000**
Heidi Miller	*1*	**15,700**	**15,700**	**—**	**—**	**—**	**15,700**
Eileen Murray (appointed to the Board on 1 July 2020)	*1*	**—**	**75,000**				**75,000**
David Nish		**50,000**	**—**	**50,000**	**—**	**—**	**50,000**
Noel Quinn	*2*	**441,925**	**778,958**	**—**	**—**	**—**	**778,958**
Ewen Stevenson	*2*	**233,972**	**545,731**	**—**	**—**	**—**	**545,731**
Sir Jonathan Symonds (retired on 18 February 2020)		**43,821**	**38,823**	**4,998**			**43,821**
Jackson Tai	*1, 3*	**66,515**	**32,800**	**11,965**	**21,750**	**—**	**66,515**
Mark Tucker		**307,352**	**307,352**	**—**	**—**	**—**	**307,352**
Pauline van der Meer Mohr		**15,000**	**15,000**	**—**	**—**	**—**	**15,000**

1 *Kathleen Casey has an interest in 3,025, James Forese has an interest in 23,000, Steven Guggenheimer has an interest in 3,000, José Antonio Meade Kuribreña has an interest in 3,000, Heidi Miller has an interest in 3,140, Eileen Murray has an interest in 15,000 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 Plan (UK) and the HSBC Share Plan 2011 are set out in the Scheme interests in the Directors' remuneration report on page 229. At 31 December 2020, 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 – 1,333,514; and Ewen Stevenson – 1,751,278. Each Director's total interests represents less than 0.01% of the shares in issue and 0.01% 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.*

4 *On 19 May 2020, Steven Guggenheimer reported to HSBC that he had acquired 5,000 shares on 1 May 2020. Prior clearance was not obtained as required pursuant to the standards set out in the Hong Kong Model Code for Securities Transactions by Directors of Listed Issuers. Enhancements have been made to the Directors' onboarding process, along with communication throughout the year, to highlight share dealing obligations.*

There have been no changes in the shares or debentures of the Directors from 31 December 2020 to the date of this report.

Listing Rule 9.8.4 and other disclosures

This section of the *Annual Report and Accounts 2020* forms part of and includes certain disclosures required in the Report of the Directors incorporated by cross-reference, including under Listing Rule 9.8.4 and otherwise as applicable by law.

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Directors' governance

Appointment and re-election

A rigorous selection process is followed for the appointment of Directors. Appointments are made on merit and candidates are considered against objective criteria, having regard to the benefits of a diverse Board. Appointments are made in accordance with HSBC Holdings' Articles of Association. The Nomination & Corporate Governance Committee report sets out further detail on the Board selection process. 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.

Non-executive Directors are appointed for an initial three-year term and, subject to continued satisfactory performance based upon an assessment by the Group Chairman and the Nomination & Corporate Governance Committee, are proposed for re-election by shareholders at each AGM. They typically serve two three-year terms. The Board may invite a Director to serve additional periods but any term beyond six years is subject to review with an explanation to be provided in the *Annual Report and Accounts*.

Shareholders vote at each AGM on whether to elect and re-elect individual Directors. All Directors that stood for election and re-election at the 2020 AGM were elected and re-elected by shareholders.

None of the Directors who retired during the year or who are not offering themselves for re-election at the 2021 AGM have raised concerns about the operation of the Board or the management of the company.

No executive Director is involved in deciding their own remuneration outcome.

Commitments

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. 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 confirm that they can meet this requirement, taking into account any other commitments they have.

Board approval is required for any non-executive Directors' external commitments, with consideration given to time commitments and conflicts of interest.

Conflicts of interest

The Board has an established policy and set of procedures to ensure that the Board's management of the Directors' conflicts of interest policy operates effectively. The Board has the power to authorise conflicts where they arise, in accordance with the Companies Act 2006 and HSBC Holdings' Articles of Association. Details of all Directors' conflicts of interest are recorded in the register of conflicts, which is maintained by the Group Company Secretary and Chief Governance Officer's office. Upon appointment, new Directors are advised of the policy and procedures for managing conflicts. Directors are required to notify the Board of any actual or potential conflicts of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts. The Board has considered, and authorised (with or without conditions) where appropriate, potential conflicts as they have arisen during the year in accordance with the said policy and procedures.

Directors' indemnity

The Articles of Association of HSBC Holdings 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 has granted, by way of deed poll, indemnities to the Directors, including former Directors who retired during the year, against certain liabilities arising in connection with their position as a Director of HSBC Holdings or of any Group company. Directors are indemnified to the maximum extent permitted by law.

The indemnities that constitute a 'qualifying third-party indemnity provision', as defined by section 234 of the Companies Act 2006, remained in force for the whole of the financial year (or, in the case of Directors appointed during 2020, from the date of their appointment). The deed poll is available for inspection at the registered office of HSBC Holdings.

Additionally, Directors have the benefit of Directors' and officers' liability insurance.

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 2020, 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.

Additional non-financial disclosures

Additional non-financial disclosures detailing HSBC's policies and practices 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 2020*.

Shareholder engagement

The Board is directly accountable to, and gives high priority to communicating with, HSBC's shareholders. Information about HSBC and its activities is provided to shareholders in its *Interim Reports* and the *Annual Report and Accounts* as well as on www.hsbc.com.

To complement regular publications, there is continual dialogue between members of the Board and institutional investors throughout the year. For examples of such engagement see the Group Chairman's letter on page 196 and the Remuneration Committee Chair's letter on page 229.

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 2021 is planned to be held in London at 11:00am on Friday, 28 May 2021. Information on how to participate, both in advance and on the day, can be found in the Notice of the 2021 AGM, which will be sent to shareholders on 24 March 2021 and be available on www.hsbc.com/agm. 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. Due to the current environment these arrangements may change. Shareholders should monitor our website and announcements for any updates. 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 and resolutions

Shareholders may require the Directors to call a general meeting other than an AGM, as provided by the UK Companies Act 2006. A valid request to call a general meeting may be made by members representing at least 5% of the paid-up capital of HSBC Holdings as carries 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. At any general meeting convened on such request, no business may be transacted except that stated by the requisition or proposed by the Board.

Shareholders may request the Directors to send a resolution to shareholders for consideration at an AGM, as provided by the UK Companies Act 2006. A valid request must be made by (i) members representing at least 5% of the paid-up capital of HSBC Holdings as carries the right of voting at its general meetings (excluding any paid-up capital held as treasury shares), or (ii) at least 100 members who have a right to vote on the resolution at the AGM in question and hold shares in HSBC Holdings on which there has been paid up an average sum, per member, of at least £100. The request must be received by the company not later than (i) six weeks before the AGM in question; or (ii) if later, the time at which the notice of AGM is published.

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.

Events after the balance sheet date

For details of 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 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 UK Companies Act 2006, 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 $100,750 during 2020 (2019: $119,600).

Charitable contributions

For details of charitable contributions, see page 50.

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 23 February 2021, the date of approval of this *Annual Report and Accounts 2020*.

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.

Risk management framework

The 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 Executive Committee member 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 risk management 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.

During 2020 unprecedented global economic events led to banks playing an expanded role to support society and customers. The Covid-19 outbreak and its impact on the global economy have impacted many of our customers' business models and income, requiring significant levels of support from both governments and banks.

To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

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. This 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 Group'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 2020, 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 and areas undergoing strategic growth.

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. In response to the Covid-19 outbreak, our business continuity responses have been successfully implemented and the majority of service level agreements continue to be maintained.

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 2020. 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 controls to manage risk, and the reporting of issues on a regular basis through the various risk management and risk governance forums. Entity level controls are a defined suite of internal controls that have a pervasive influence over the entity as a whole and meet the principles of the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') framework. 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 GRC and also to the GAC, if concerning financial reporting matters. The suite of entity level controls was updated in 2020 to simplify and align with the Group's refreshed risk management framework.

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 107. 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 UK 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 certain material disclosures made or to be made by the Group. The membership of the Disclosure Committee consists of senior management, including the Group Chief Financial Officer, Group Chief Legal Officer and Group Company Secretary and Chief Governance Officer. 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 at the end of the period covered by this *Annual Report and Accounts 2020*.

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 2020, 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. For further details, see page 41.

Employees

At 31 December 2020, HSBC had a total workforce equivalent to 226,000 full-time employees compared with 235,000 at the end of 2019 and 229,000 at the end of 2018. Our main centres of employment were the UK with approximately 40,000 employees, India with 39,000, Hong Kong with 29,000, mainland China with 27,000, Mexico with 15,000, the US with 8,000 and France with 7,000.

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 customers, suppliers and communities span many cultures and continents. We believe this diversity makes us stronger, and we are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging.

Our Group People Committee, which is made up of Group Executive Committee members, governs our diversity and inclusion agenda. It meets regularly to agree actions to improve diverse representation and build a more inclusive culture where our colleagues can bring the best of themselves to work and deliver more equal outcomes for our stakeholders. Members of our Group Executive Committee are held to account for the actions they take on diversity via aspirational targets contained within their performance scorecards. Our people managers also have a component of their performance assessed on the degree to which they create team environments that are inclusive, motivating and nurturing. Every colleague at HSBC must treat each other with dignity and respect, creating an inclusive environment. Our policies make clear we do not tolerate unlawful discrimination, bullying or harassment on any grounds.

To align our approach to inclusion best practice, we participate in global diversity benchmarks, which help us to identify improvement opportunities. We also track a large number of diversity and inclusion metrics, which enable us to pinpoint inclusion barriers and take action where required.

Our gender diversity statistics are set out on page 64.

Further details of our diversity and inclusion activity, together with our Gender and Ethnicity UK Pay Gap Report 2020, can be found at www.hsbc.com/diversitycommitments.

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

A workforce capable of meeting the challenges of today and tomorrow requires significant support to develop the right skills. Whatever our colleagues' career paths, we have a range of tools and resources to help them.

A rapid shift to virtual learning

The Covid-19 outbreak resulted in a halt to classroom training and rapid expansion in virtual learning. We prioritised the transition to remote working and helping people manage their well-being. The shift from physical classroom training to shorter virtual equivalents and online resources resulted in a total of 5.2 million hours and 2.9 days per FTE in training in 2020. For further details on training hours and days by gender, region and seniority, see the *ESG Data Pack* at www.hsbc.com/esg.

We converted or rebuilt technical, professional and personal classroom programmes to deliver online. New joiners to HSBC experienced an immersive virtual induction programme and virtual internships. Our global graduate induction programme moved entirely online with more than 100 leaders and graduate alumni welcoming approximately 650 graduates.

Supporting self-development

We have a range of tools and resources to help colleagues take ownership of their development and career.

- HSBC University is our one-stop shop for learning delivered via an online portal, network of global training centres and third-party providers.
- Our My HSBC Career portal offers career development resources and information on managing change and on giving back to the organisation and the communities in which we operate. Over 100,000 of our colleagues made use of it in 2020.
- We launched a global mentoring system in 2020 to enable colleagues to match with a mentor or mentee. At 31 December 2020, we had in excess of 6,800 mentors and mentees in 58 countries and territories.

Developing core skills

Our managers are the critical link in supporting our colleagues. In 2020, we redesigned our suite of training and resources for managers so they can focus on the most important skills including leading and supporting teams through change.

Risk management remains central to development and is part of our mandatory training. Those at higher risk of exposure to financial wrongdoing experience more in-depth training on financial risks, such as money laundering, sanctions, bribery and corruption. Other programmes and resources address specific areas of risk, like management of third-party suppliers.

Our Cyber Hub brings together training, insights, events and campaigns on how to combat cyber-crime. We are also supporting those who develop models and senior leaders with training to help them understand and apply our Principles on the Ethical Use of Big Data and Artificial Intelligence.

A learning and feedback culture

We want our colleagues to be well prepared for changing workplace requirements and so have developed a flagship Future Skills programme to support them. We identified nine key behaviours we believe are necessary future skills for colleagues and built a curriculum of resources to support learners to develop these.

More than 1,000 colleagues now act as Future Skills Influencers, supporting their businesses and teams to invest in learning. In November 2020, we ran a week-long MySkills festival, which helped colleagues explore future skills through virtual events, interactive workshops and online resources. Demand to join sessions surpassed our expectations with more than 45,000 registrations for events.

Senior succession planning

Developing future leaders is critical to our long-term success. The Group Executive Committee dedicates time to articulate the current and future capabilities required to deliver the business strategy, and identify successors for our most critical roles.

Successors undergo robust assessment and participate in executive development. Potential successors for senior roles also benefit from coaching and mentoring and are moved into roles that build their skills and capabilities.

Health and safety

We are committed to providing a safe and healthy working environment for everyone. We strive to ensure we adopt best health and safety management practices across the organisation and aim for standards that reflect our core values.

Chief operating officers have overall responsibility for ensuring that global policies, procedures and safeguards are put into practice locally, and that all legal requirements are met.

To put our commitment into practice, we delivered a range of programmes in 2020 to help us understand and manage effectively the risks we face and improve the buildings in which we operate:

- Based on expert medical advice, we created safe workplaces globally, designed to protect our employees, contractors and customers from the risks of Covid-19. We carried out approximately 1,700 Covid-19-related workplace enhancements globally, with measures involving: enhanced cleaning; training and awareness; public hygiene; and track and trace.
- We updated our advice on working from home, providing more awareness and best practices on good ergonomics and well-being to be adopted during these unprecedented times.
- We delivered an improved health and safety training and awareness programme to 245,000 of our employees and contractors globally, ensuring roles and responsibilities were clear and understood.
- We completed the annual safety inspection on all of our buildings globally, subject to local Covid-19 restrictions, to ensure we were meeting our standards and continuously improving our safety performance.
- We continued to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, covering the five key elements of best practice safety culture, including speaking up about safety, and recognising excellence. Our 2020 safety climate survey results showed a continued year-on-year increase in safety culture, and significantly above the industry average.
- Our Eat Well Live Well programme continued through educating and informing our colleagues on how to make healthy food and drink choices. We enhanced the programme to provide digital educational and information resources, including a suite of videos and recipe ideas. The programme was runner up in the 2020 Global Healthy Workplace Awards.
- We put in place effective storm preparation controls and processes to ensure the protection of our people and operations. In 2020, there were 41 named storms, which passed over 2,316 of our buildings and resulted in no injuries or business impact.

Employee health and safety

	Footnotes	2020	2019	2018
Number of workplace fatalities		**—**	1	1
Number of major injuries to employees	1	**15**	29	27
All injury rate per 100,000 employees		**88**	189	189

1 *Fractures, dislocation, concussion, loss of consciousness, overnight admission to hospital.*

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.

For further details of the Group's approach to remuneration, see page 233.

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 2020 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/who-we-are/leadership-and-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 245.

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 2020, 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 closing price for HSBC Holdings ordinary shares quoted on the London Stock Exchange on 23 September 2020, the day before the options were granted and as derived from the Daily Official List, was £2.9025.

The HSBC Holdings Savings-Related Share Option Plan (UK) will expire on 24 April 2030, by which time the plan may be extended with approval from shareholders, unless the Directors resolve to terminate the plan 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.

During 2020, approximately 171,000 employees were offered participation in these plans.

Corporate governance

HSBC Holdings Savings-Related Share Option Plan (UK)

Dates of awards from	Dates of awards to	Exercise price from (£)	Exercise price to (£)	Usually exercisable from	Usually exercisable to	Footnotes	HSBC Holdings ordinary shares: At 1 Jan 2020	Granted during year	Exercised during year	Lapsed during year	At 31 Dec 2020
20 Sep 2013	24 Sep 2020	2.6270	5.9640	1 Nov 2018	30 Apr 2026	1	**65,060,681**	**111,469,393**	**1,387,599**	**44,189,936**	**130,952,539**

1 *The weighted average closing price of the shares immediately before the dates on which options were exercised was £5.2014.*

Statement of compliance

The statement of corporate governance practices set out on pages 195 to 265 and the information referred to therein constitutes the 'Corporate governance report' and 'Report of the Directors' 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: – Group Chairman – Group Chief Executive – Senior Independent Director – Board	www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities
Board and senior management	www.hsbc.com/who-we-are/leadership-and-governance
Roles and responsibilities of the Board's committees	www.hsbc.com/who-we-are/leadership-and-governance/board-committees
Board's policies on: – diversity and inclusion – shareholder communication – human rights – remuneration practices and governance	www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities
Global Internal Audit Charter	www.hsbc.com/who-we-are/leadership-and-governance/corporate-governance-codes/internal-control

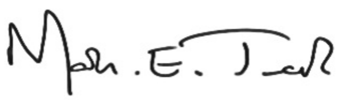
HSBC is subject to corporate governance requirements in both the UK and Hong Kong. During 2020, save to the extent referred to below, HSBC complied with the provisions and requirements of both the UK and Hong Kong Corporate Governance Codes.

Following the UK Government's introduction of social distancing measures and prohibition on non-essential travel and public gatherings, it was not possible for shareholders to attend the 2020 Annual General Meeting ('AGM') in person. The Board was fully informed of all relevant AGM and shareholder matters but only a limited number of Directors and essential personnel attended the AGM to ensure the meeting was quorate and to enable the business of the meeting to be conducted. Shareholders were advised to vote by submitting a proxy in advance of the AGM and that they should only appoint the Chairman of the AGM to act as their proxy. To ensure that shareholders did not lose the opportunity to raise questions, shareholders were encouraged to submit questions for the Board via email in advance of the AGM. Responses to the most frequent questions across key themes were published on the HSBC website after due consideration by the Board. None of the questions submitted covered a topic that required consideration by the auditor. Given these measures, not all of the persons set out in paragraphs A.6.7 and E.1.2 of the Hong Kong Corporate Governance Code were able to attend the AGM.

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.

Notwithstanding that Laura Cha has served on the Board for more than nine years, the Board has determined that she continues to be independent when taking into consideration all other relevant circumstances that are likely to impair, or could appear to impair, independence. Laura will not be standing for re-election at the 2021 AGM.

HSBC Holdings has codified obligations for transactions in Group securities in accordance with the requirements of the UK 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, except as disclosed on page 258, 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

23 February 2021

Directors' responsibility statement

The Directors are responsible for preparing the *Annual Report and Accounts 2020*, 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 2020* 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 2020,* 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 198 to 201 of the *Annual Report and Accounts 2020*, confirms 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 216 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

HSBC Holdings plc

Registered number 617987

23 February 2021