

2013 Questions and Answers

A REMUNERATION

What are the overall principles of the Group's remuneration policy?

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

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

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

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

Overview of remuneration

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

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

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

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

Group variable pay pool determination

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

The variable pay pool takes into account the performance of the Group which is considered within the context of its Risk Appetite Statement. This helps to ensure that the variable pay pool is shaped by risk considerations. The Risk Appetite Statement

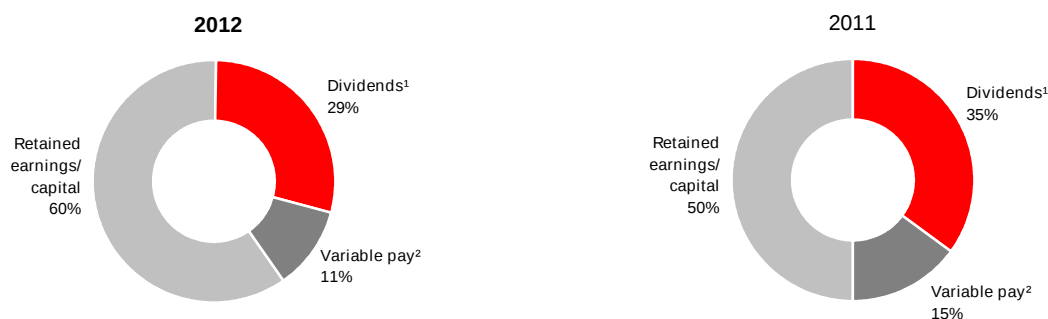
describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. It shapes the integrated approach to business, risk and capital management and supports the achievement of the Group's objectives. The Group Chief Risk Officer regularly updates the Group Remuneration Committee on the Group's performance against the Risk Appetite Statement.

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

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

In addition, our funding methodology considers the relationship between capital, dividends and variable pay to ensure that the distribution of post-tax profits between these three elements is considered appropriate. It is deemed fundamental to the Group that a majority of post-tax profit should be allocated to capital and to shareholders, particularly when a strong performance is delivered. On a pro forma basis, attributable profits (excluding movements in the fair value of own debt and before variable pay distributions) are allocated in the following proportions:

Pro forma post-tax profits allocation



1 Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2012 were US\$0.45, an increase of 10% compared with 2011.

2 Total variable pay pool net of tax and portion to be delivered by the award of HSBC shares.

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

What is the justification for the annual bonus awards made to executive Directors in respect of 2012?

S T Gulliver

The annual incentive award made to S T Gulliver in respect of 2012 reflected the Committee's assessment of the extent to which he had achieved the personal and corporate objectives set for him within his performance scorecard as agreed by the Board at the beginning of the year. This measurement took into account his performance against both the financial and non-financial measures which had been set to reflect the risk appetite and strategic priorities determined by the Board to be appropriate for 2012.

In order for any award of annual incentive to be made under the above performance scorecard, the Committee firstly had to satisfy itself that S T Gulliver

had personally met and shown leadership in promoting HSBC Values. This overriding test assessed behaviour around the HSBC Values principles of being 'open, connected and dependable' and acting with 'courageous integrity'. Independent feedback was taken from direct reports and others lower in the organisation as well as from the Group Chairman. Taking this into account as well as its own experience and observation, including noting how S T Gulliver had dealt with situations where HSBC Values had not been met, the Committee concluded that S T Gulliver had exhibited strong leadership and personal behaviour in this area and so met the required standard.

In aggregate, in assessing the calibration of S T Gulliver's 2012 annual incentive against his theoretical maximum opportunity of three times base salary, an overall score of 52% (2011: 57.5%) of that maximum opportunity was judged to have been achieved. The achievement of the financial element of the scorecard was scored marginally higher than the non-financial measures. A summary of the assessment and rationale for the conclusions is set out below. Unless otherwise indicated, the figures in parentheses denote the opportunity within the scorecard.

Financial (60% weighting – achieved 32%)

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

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

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

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

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

The final opportunity under non-financial measures (15%) related to Risk and Compliance and in light of the US regulatory and law enforcement fines and

penalties and further customer redress in the UK, no award was made under this element.

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

I J Mackay

The performance scorecard for I J Mackay was weighted 30% financial, 70% non-financial. In aggregate, in assessing the quantum of the 2012 annual incentive against the theoretical maximum opportunity of three times base salary, an overall score of 64% of that maximum opportunity was judged to have been achieved.

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

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

The levels of award made in 2011 and 2012 reflected that I J Mackay was new to the Group Finance Director role, reflecting the experience and performance of I J Mackay. The award made in 2013 is a more representative level of award for the role, reflecting the experience and performance of I J Mackay.

How can you justify the long term incentive awards you gave S T Gulliver in 2010, 2011 and 2012 when you committed to be conservative when determining awards under the Group Performance Share Plan?

The maximum award S T Gulliver is entitled to receive under the Group Performance Share Plan ("GPSP") is six times fixed pay (ie £7.5 million). Notwithstanding this, during the shareholder consultation process in respect of the GPSP, the Group Remuneration Committee had committed to shareholders that it would be conservative when determining the first awards to be made.

Accordingly, having reviewed the initial performance outcome for 2010 under the performance scorecard of 38.2%, the Committee determined that the initial performance outcome should be reduced further to give a final performance outcome for 2010 of 31.3%.

The initial performance outcome for 2011, under the scorecard, was determined by the Committee to be 50%. No adjustment was considered necessary.

In 2012 the initial performance outcome under the scorecard was determined by the Committee to be 48.75%. The Committee determined that the initial performance outcome should be reduced further to give a final performance outcome of 40%.

These performance outcomes were applied to the maximum face value (expressed as a percentage of salary) for S T Gulliver. The awards made in respect of 2010, 2011 and 2012 are detailed below:

	Maximum face value of award	Performance outcome	Awards made	Value of award made
2010	600%	31.3%	187.8%	£2,350,000
2011	600%	50%	300%	£3,750,000
2012	600%	40%	240%	£3,000,000

Please explain the performance criteria for the Group Performance Share Plan (GPSP)

The way in which we assess performance under the GPSP is aimed at achieving greater alignment of employees' reward with long-term shareholder value.

The Group Remuneration Committee approved that award levels under the GPSP would be determined on grant, rather than on vesting, by considering performance delivered prior to the date of grant against a pre-determined long-term balanced scorecard. This scorecard would set out performance measures, which would be made up of 60 per cent financial and 40 per cent non-financial measures, which in our view should incentivise sustainable long-term performance.

The financial measures which we apply are:

- return on equity;
- cost efficiency ratio;
- capital strength; and
- dividends.

The non-financial measures are:

- strategy;
- brand equity;
- compliance and reputation; and
- people and values.

The combination of these measures is designed to incentivise the achievement of financial performance over a period prior to grant of an award and the sustainability of that performance over the long-term.

We may clawback awards (i.e. reduce or cancel them or amend or impose additional conditions) at any time prior to vesting, which provides an additional safeguard if an assessment of performance proves to be inaccurate or incorrect.

In the Directors' Remuneration Report each year we will disclose the measures to be contained in the long-term balanced scorecard for the year and the performance against the measures which were set for the previous year. Where achievement of a performance measure is quantifiable, the relevant result will be independently verified.

Has clawback been exercised for the executives responsible for the issues raised in the PSI?

The Group Remuneration Committee has exercised clawback in 2012 and 2013 principally in respect of US regulatory and law enforcement fines and penalties.

The deferred element of awards made in 2012 to Executive Directors, Group Managing Directors and Group General Managers, will be deferred for a period of 5 years and will vest subject to satisfactory completion of the Deferred Prosecution Agreement.

How is HSBC responding to the CRDIV proposals?

Although general guidance has been issued with the recent European Parliamentary vote, the Company is still awaiting for the final text of CRD IV to be published and for our principal regulator PRA to issue their consultation document (anticipated this Autumn) on how CRDIV will be applied for firms regulated here in the UK. Therefore, the Company has not at this time ascertained the exact actions that they will undertake in addressing the challenges of adopting this new legislation, we will of course take the appropriate actions to ensure that comply with the final legislation and guidance once issued.

B US ISSUES

What is the status of US regulatory and law enforcement investigations related to HSBC's compliance with anti-money laundering and sanctions laws?

In December 2012, we reached agreement with US and UK authorities regarding HSBC's past inadequate compliance with anti-money laundering (AML) and sanctions laws. The agreements included, among others, Deferred Prosecution Agreements (DPAs) with the US Department of Justice (DOJ) and the District Attorney for the County of New York (DANY), and an Undertaking with the UK Financial Services Authority (now a Direction issued by the Financial Conduct Authority (FCA)).

HSBC made payments totalling US\$1.921bn to US authorities. In addition, HSBC has a number of ongoing obligations under the agreements. Those obligations generally include:

- Remediation of AML/sanctions compliance deficiencies and implementation of global standards.
- Cooperation with law enforcement authorities with respect to all matters.
- No violations of US federal or New York state criminal law.

- Notification to the DOJ and DANY of: 1) regulatory investigations and actions related to HSBC's compliance with US sanctions laws, involvement in money laundering, or money laundering programme; 2) attempts by any entity to circumvent US sanctions laws; and 3) inadequate controls for acquired entities.
- No contradiction of the Statement of Facts that accompanied the DPAs.

In addition, under the agreements with DOJ, the FCA, and the US Federal Reserve, an independent monitor will assess HSBC's progress in fully implementing these and other measures, and will produce regular assessments of the effectiveness of HSBC's compliance function.

In the past several years, the Board of HSBC Holdings plc has taken decisive action to direct management to fix past shortcomings as they have come to light. Since 2011, with new senior leadership teams in place at both HSBC Group and HSBC North America, HSBC has taken extensive and concerted steps to put in place the most effective standards for the future – Global Standards.

The Department of Justice recognised these efforts in the DPA, noting that "Management has made significant strides in improving 'tone from the top' and ensuring that a culture of compliance permeates the institution. The efforts of management have dramatically improved HSBC Bank USA's and HSBC Group's Bank Secrecy Act / Anti-Money Laundering and Office of Foreign Assets Control compliance programs."

As noted in the DPA with DOJ, HSBC Bank USA already has, over the past several years, undertaken the following voluntary remedial measures:

- increased its spending on anti-money laundering (AML) approximately nine-fold between 2009 and 2011
- increased its AML staffing nearly ten-fold between 2010 and 2012
- revamped its Know Your Customer programme, including treating non-US HSBC Group Affiliates as third parties subject to the same due diligence as all other customers
- exited 109 correspondent relationships for risk reasons
- clawed back bonuses from a number of senior officers
- spent over US\$290m on remedial measures

HSBC Group has also undertaken a comprehensive overhaul of its structure, controls, and procedures. A number of these improvements is included in the DPA. Among other measures, HSBC Group has:

- simplified its control structure, allowing the Group to manage risks worldwide more effectively
- elevated the role of Group Compliance and given it direct oversight over every compliance officer globally, so that both accountability and escalation now flow directly to and from HSBC Group Compliance

- created the new role of Head of Group Financial Crime Compliance and Group Money Laundering Reporting Officer, who will help to establish a Global Financial Intelligence Unit
- made other new senior hires with extensive experience handling relevant international legal and regulatory issues, including a new Chief Legal Officer
- adopted a set of guidelines limiting business in those countries that pose a high financial crime risk
- issued a new global sanctions policy using a more extensive and consistent set of lists to screen all cross-border payments
- commenced a review of all Know Your Customer files across the entire Group – the first phase of this remediation will cost an estimated US\$700m over five years

In addition, the HSBC Group has continued in its strategy to simplify the Bank and de-risk our activities. As part of this, 52 disposals or exits have been announced since the start of 2011.

HSBC is firmly committed to putting in place robust standards that will help promote the integrity of the global financial system.

What is the Financial System Vulnerabilities Committee?

The committee, established in January 2013, provides governance, oversight and policy guidance over HSBC's framework of controls and procedures designed to identify areas where HSBC and the financial system more broadly may become exposed to financial crime or system abuse. Financial crime and system abuse are defined broadly as encompassing all activities through which bad actors may gain preventable access to the financial system or good actors may abuse their participation in the system by undertaking transactions or activities that are reputationally damaging to HSBC, even if not actually illegal.

The objective of the committee is to use its knowledge and experience to help place HSBC at the forefront of industry leadership in this area. The committee oversees and reports to the Board on management's implementation of the actions necessary to build assurance in these areas.

The scope of the committee's remit encompasses governance, oversight and policy guidance with respect to the following:

- Anti-money laundering systems and controls
- Application of Group Standards regarding tax transparency, anti-avoidance and compliance
- Prevention of terrorist financing
- Prevention of association with illegal drugs activities
- Application and enforcement of financial sanctions
- Intelligence in relation to all of the above regarding emerging threats, and
- Effective relationships with governments and law enforcement agencies in relation to the above

In addition, the Financial System Vulnerabilities Committee assists the Board in meeting its continuing obligations to regulatory and law enforcement agencies in the areas noted above and will seek to provide the Board with a forward-looking perspective on financial crime risk.

The committee comprises at least two non-executive directors, supported by five subject matter experts as Advisors, as set out below.

Non-Executive Board Members

Rona Fairhead (Chairman), Chairman of the Group Risk Committee
Sir Simon Robertson, Deputy Chairman and Senior Independent Director
James B. Comey, Director

Advisers

Bill Hughes, CBE QPM
Juan C. Zarate
Nick Fishwick, CMG
Dave Hartnett, CB
Leonard H. Schrank

In addition to the above, and Douglas Flint, the Group Chairman, the Committee is attended by the following executives:

Stuart Gulliver, Group Chief Executive
Marc Moses, Group Chief Risk Officer
Stuart Levey, Group Chief Legal Officer
Bob Werner, Group Head of Financial Crime Compliance and Group Money Laundering Reporting Officer
Ruth Horgan, Global Head of Regulatory Compliance

What is the Group's strategy in the U.S.?

The U.S. continues to be a very important global market, as a centre for international trade, capital flows, economic development and wealth creation. The U.S. dollar is a principal reserve and trading currency. Continued execution of the U.S. strategy to be profitable, sustainable, and focused on our core capabilities aligns with the HSBC Group strategy to become the leading international Bank.

The U.S. turnaround continues and significant progress has been made in executing the U.S. strategy which will return the business to sustained profitability. We remain fully committed to fulfilling responsibilities against outstanding regulatory issues and have made significant investments in regulatory and compliance infrastructure. Targeted investment in the four global lines of business will continue, supported by a right-sized, robust infrastructure that is fully compliant with regulatory requirements, whilst leveraging our strength and scale. The six filters framework has been applied resulting in disposals of businesses no longer aligned with our core strategy. Opportunities to further reduce risk and improve returns in our non-core legacy assets will be progressed where shareholder value is maximized.

How much has the Household acquisition cost HSBC?

The Group has made USD188 billion of profit before tax (excluding the goodwill impairment charge) since acquiring Household Finance Corporation (HFC) in 2003. The total acquisition costs were USD16.4 billion. Dividends of USD5.6 billion have been received to December 2012.

While the eventual cost to HSBC will continue to be heavily influenced by the US economy, actions taken by this management team to date have contributed to the operations in the North America being profitable for the third consecutive year (on a reported basis).

What progress has been made in closing down the US Consumer Finance Business?

The Consumer Mortgage Lending (CML) and other run-off portfolio book has reduced from USD117 billion at fourth quarter of 2007 to US\$41 billion (including HFS) in the first quarter of 2013. Loan impairment charges have continued to decline since the third quarter of 2011 due to lower loan balances and an improvement in credit performance. As we continue to wind down the CML book as quickly as practical in a responsible and economically sound matter, it remains sensitive to macroeconomic factors such as unemployment figures, housing prices and regulatory pressures.

C CORPORATE SUSTAINABILITY

Does HSBC donate to charity and how does HSBC give back to communities and those in need?

In 2012, HSBC donated USD120 million to community investment projects. We focus on education and the environment, as these are fundamental to building and developing communities. Last year, 48% of our donations went to education projects, 23% to environmental projects and 29% to other local projects. Over the last five years, HSBC has invested over US\$500 million in community projects.

Through our community investment programmes, HSBC seeks to help young people fulfil their potential. Our education programmes focus on all stages of development and address different types of need. In 2012, we invested USD58 million in education projects and thousands of HSBC employees got involved through volunteering.

Our flagship global education programme, Future First, is a partnership between HSBC, SOS Children's Villages and other not-for-profit organisations. Its aim is to tackle child poverty through education projects. In 2012, we pledged an additional USD15 million for Future First. The additional investment will support more than 50 projects in 26 countries, taking our total commitment to Future First to USD40 million over 10 years (2006 - 2015). Since Future First was started, it has provided

some of the world's most marginalised and impoverished young people with access to education and life skills, as well as a better future. The total number of young people supported since the partnership began is now over 800,000.

We support financial education and business literacy through JA More Than MoneyTM. This global financial programme teaches students across the world about earning, spending, sharing and saving money, and about potential careers. It is the world's largest organisation dedicated to educating young people about financial literacy. 77,770 young people learned about finance through JA More than Money in 2012.

In 2012, HSBC launched a new flagship environmental project, the HSBC Water Programme. This is a five-year, USD100 million programme in partnership with three Non-Government Organisations which rank among the world's most respected environmental and development organisations (Earthwatch, WaterAid and WWF). The programme will deliver water provision, protection, information and education across the world. It will ensure access to water for 1.1 million people and sanitation for 1.9 million people 7,500 HSBC employees will be engaged in freshwater research to become 'Citizen Science Leaders'.

How does HSBC manage risk in lending and other financial services?

In 2004, HSBC adopted the Equator Principles. This is a framework for managing the potential impact of large projects on people and the environment. The policies deal with issues such as illegal logging, human rights, biodiversity and climate change.

HSBC also has five voluntarily-established sector policies which help to manage the potential impact of our business customers on people and the environment. We also have a defence equipment policy which sets out our approach to companies involved with weapons. We do not have any relationships with customers whose business is to manufacture or sell anti-personnel mines or cluster bombs.

We regularly review our policies to ensure they reflect the latest risks and developments in certain sectors. We often revise our policies through consultation with relevant Non-Government Organisations to seek their views and expertise and to ensure our policies are up to date. We turn business away if we are not comfortable that it meets our standards. When customers do not comply and, despite our best efforts, make no progress towards compliance, we will exit the relationship.

You can read summaries of all these policies and on the application of the Equator Principles at <http://www.hsbc.com/1/2/sustainability/sus-risk>.

D CORPORATE GOVERNANCE

Why is the board of Directors so big?

The Board includes a strong presence of both executive and non-executive Directors and no individual or small group can dominate its decision making. The size of the Board is appropriate given the complexity and geographical spread of our business

and the significant time demands placed on the non-executive Directors, particularly those who serve as members of Board committees.

At the conclusion of the 2013 Annual General Meeting, we have 5 nationalities (American, British, Chinese, German and Swiss) represented on the Board and the Executive Directors between them have 56 years experience with HSBC, working in a total of 7 countries.

The Nomination Committee regularly reviews the structure, size and composition necessary (including the skills, knowledge and experience required of Directors) to address and challenge adequately key risks and decisions that confront, or may confront, the Board and makes recommendations to the Board with regard to any changes. The Nomination Committee maintains a forward-looking schedule of potential candidates as Directors that takes into account the needs and developments of the Group's businesses and the anticipated retirement dates of existing Directors.

How can some of the Directors who have too many other appointments possibly give HSBC enough time?

The Board has determined that the time commitment expected of non-executive Directors to be 30 to 36 days per annum. Time devoted to the Company could be considerably more, particularly if serving on Board Committees. The time commitment of each non-executive Director is set out in the Director's letter of appointment.

Formal evaluation of the individual performance of each Director is undertaken annually by the Chairman using the findings of the performance evaluation process undertaken by the Board. The Group Chairman has confirmed that all of the non-executive Directors continue to perform effectively and to demonstrate commitment to their roles.

The non-executive Directors, led by the senior independent non-executive Director, are responsible for the evaluation of the performance of the Group Chairman.

Why aren't there more women on the Board?

At the conclusion of the Annual General Meeting, women will comprise 4 of the 16 Directors, representing 25 per cent of the Board, at the aspirational target set for FTSE100 companies in Lord Davies' report "Women on Board" to be achieved by 2015. We follow a merit based approach to diversity and inclusion with regard to gender, ethnicity and age. Within the HSBC organisation we have women running major banking operations in the US, India, China and Hong Kong.

When will you decide to relocate to another domicile?

In the third quarter of 2011, we made clear that any decision on the location of our Headquarters domicile would require greater clarity on the Independent Commission

on Banking issues and other legislation. The number of regulatory uncertainties makes it impossible to make a decision at this time. We are aware of our fiduciary duties and will clearly act in the best interests of shareholders.

E UK SPECIFIC ISSUES UPDATE

1. UK lending highlights for 2012

HSBC is fully committed to helping its personal and business customers with their borrowing needs and in 2012 approved almost £50 billion in new loans to UK businesses and mortgage borrowers. We continued to increase lending to both our business and individual customers and our mortgage market share has continued to grow. We are committed to helping the UK economy recover by continuing to support our customers through the coming years.

Businesses

In 2012 HSBC provided £30.4 billion of gross new lending to UK businesses of which £12.3 billion was to small and medium enterprises (SMEs) including £5.1 billion to those SMEs wanting to trade internationally. This helped more than 28,000 businesses to enter or expand in new markets and more than 10,900 start-up businesses each month.

Mortgages

HSBC approved £19.5 billion to UK personal mortgage borrowers in 2012 of which £5 billion was to first-time buyers (FTBs). This helped a total of 177,000 borrowers including 40,500 FTBs achieve their property aspirations.

2. HSBC Payment Protection Insurance (“PPI”) - Facts

HSBC’s provision to date for its PPI redress programme is USD2.5 billion (£1.6 billion). HSBC was the first major UK bank or lender to stop selling PPI in late 2007 and has the lowest provision among the major UK banks:

Bank	Total (to date, £ billions)
Lloyds	6.8
Barclays	2.6
RBS	2.2
HSBC	1.6 (USD2.5 billion)

In the second half of 2012 we began to experience a levelling off of inbound claims volumes and as expected in the first quarter of 2013 we have started to see inbound volumes trend downwards in-line with our forecasts. Notwithstanding this the bank provisioned a further US\$113m in the first quarter of 2013 relating to higher than previously estimated redress costs and uphold rates for certain complaints.

Many factors will continue to affect the estimated provision and there remains a degree of uncertainty around the eventual costs of redress for this matter. As of March 2012, the bank has refunded US\$1.6billion to mis-sold PPI customers.

Going forward, we will continue to roll out our programme of proactively contacting customers whom we believe were mis-sold. In addition, HSBC is working with the industry to encourage any customer who thinks they have been mis-sold PPI to contact us directly.

3. Interest Rate Swaps – Small Businesses

Past Business Review

HSBC is currently conducting a past business review of all customers within the scope agreed with the Financial Conduct Authority (formerly the FSA).

We will provide a fair and reasonable outcome for each customer. Each case is scrutinised by a dedicated team within HSBC and is endorsed by the independent reviewer, Deloitte LLP. The bank has started contacting customers with redress proposals.

We believe the past business review will take between 6-12 months to complete – through to March 2014. Most cases will be completed within 6 months but more complex ones may take longer. This is in line with the agreement with the FCA.

If a customer informs us that they are facing financial hardship, we are reviewing their case as a priority. On a case by case basis, we may suspend their Interest Rate Protection payments until their case has gone through the review process.

HSBC has set aside a provision of £375 million to cover the anticipated costs of the review.

4. Future Terms – Proposed changes to benefits of UK employees

In the UK today, we have different people getting very different employee benefits from HSBC – even people doing similar roles.

As such our aim is to find a sustainable way of providing everyone in the UK with more equitable benefits. This is what we have proposed:

- To provide everyone in the UK with private healthcare and a market-leading defined contribution pension scheme in comparison to our core peer group, and
- To improve income protection, maternity and adoption pay and holiday entitlement for a large number of people, bringing them up to the level other colleagues receive today.

To make this sustainable, we have also proposed closing the defined benefit section of our pension scheme to future accrual.

We have committed to re-invest every penny of annual savings from the proposal to the benefit of all of our employees in the UK.

Facts and figures:

The defined contribution scheme proposal

- The combined changes are designed to provide more equitable benefits for employees on UK-based contracts, which currently vary significantly
- All staff on UK-based employment contracts will be provided with private healthcare and an improved defined contribution pension scheme
- Currently, the defined contribution scheme offers a core contribution of 8% plus up to 5% matching of employee contributions. The proposed defined contribution scheme will offer a core contribution of 8% plus up to 8% matching of employee contributions
- Members of the defined benefit pension scheme will build up future benefits, from July 2014, in the defined contribution pension scheme

Impact of our proposal

- 25% of our UK employees are defined benefit members
- Our proposal would lead to overall improvements for 75% of our employees

Where is the bank with the consultation?

- We have consulted with our UK based employees on the proposed changes.
- This produced more than 9,000 pieces of employee feedback.
- We have reviewed all of this feedback and, in response, we are currently considering the detail of our proposal in consultation with the Pension Trustee and our employee representative bodies.
- We aim to be able to communicate an outcome in June.

5. Proposed Changes to the UK Bank

- Changes reflect on-going transformation of Wealth business
- Proposals will further the culture of focusing on customer needs
- Proposed changes may result in a net reduction of 1,149 roles

HSBC is currently consulting on proposed changes to its UK business which will lead to a potential reduction of 1,149 roles. The changes reflect the changing nature of customer behaviour and regulation. A total of 3,166 employees will be impacted. However, the bank is creating 2,017 new roles and it is expected that the majority of these roles will be filled by displaced employees.

In order for HSBC to better meet the needs of customers who use its wealth management and advice services, the most significant changes are being proposed within the bank's wealth business. From 1 June, the bank will combine all existing wealth advisers within HSBC's consumer retail banking business. New roles will also be added to create a diploma qualified adviser force of 853 people.

This integration of advisers means the roles of commercial financial advisers will no longer exist. The proposals also require the role of HSBC's Premier relationship managers to be diploma qualified. As a consequence the bank will no longer require the roles of 942 relationship managers who do not give financial advice. The bank will also be launching a wealth learning programme to support all colleagues who wish to achieve their diploma qualification.

Wealth remains a strategic business for HSBC. The proposed changes will ensure for the first time that all UK Premier customers who already hold over £50,000 of savings and investments with the bank, will have a relationship manager qualified to give financial advice as a single contact point for both their banking and wealth management needs.

Brian Robertson, CEO of HSBC Bank plc, said:

"I understand change is always unsettling, particularly for those directly affected. However, I also firmly believe what we are proposing is essential in order for us to fulfil our customers' expectations. With the banking behaviour of our customers continually evolving we must change our business to meet their needs. We are doing everything possible to offer impacted employees opportunities from the many newly created roles, and I'm confident a significant majority will remain with the bank."

Antonio Simoes, Head of the UK Bank and Deputy CEO of HSBC Bank plc said:

"Better serving our customers, particularly for their wealth management needs, is essential if we are to fulfil our aspiration of becoming the world's leading international bank. These proposals, together with the recent removal of all sales targets for our employees and the complete decoupling of incentives from those sales, mean our customers can expect us to fully focus on serving their needs and do the right thing. Evolving and improving our culture will take time but the changes announced today are another step in the right direction."

The bank is also making changes to some roles within its commercial banking business as it looks to support growing exporting businesses. As a result the bank will be reducing the number of its business specialist roles and increasing the number of its international business managers across the country. Some other support functions will also be impacted; however, the bank will work with the individuals concerned to help as many as possible find alternative roles within HSBC.

F INDIA

What has been the trend of complaints recorded by the India business?

The number of complaints about our India business received during the period April 2012 to March 2013 has reduced when compared to the period April 2011 to March 2012. The key indicators are as follows:

- Overall number of complaints has reduced by 61%.
- Complaints reported to the regulator in India have seen a reduction of 51%.
- Escalations and complaints to our Leadership / Management team in India have reduced by 37%.

What are the measures being taken by the India management team to reduce the incidence of complaints?

The HSBC India Management team has been actively involved in addressing complaints and ensuring suitable measures are taken to reduce them. The approach has been:

- Formation of a new dedicated organization structure to manage complaints centrally.
- Institution of a Complaints and Grievances Committee to review serious complaints and trends on a monthly basis
- Quarterly Board level committee to overview customer experience, regulatory adherence and decision on systemic changes
- Monthly overview of key service metrics on complaints, processes and customer experience
- Weekly review of critical high risk complaints to ensure quick resolution and correction of root cause issues
- Weekly Forum for analysis of select complaints on systemic deficiencies and corrective measures by the cross-functional management teams
- All complaint resolutions handled by a Centralized Complaint Management unit for standard customer experience on resolution of complaints.
- A standardized complaint handling Quality Check framework to ensure first time correct and complete resolution to customer, adopting Customer Fairness Principles.
- Service Acknowledgement Form for Face to Face customer meetings to ensure all requests from customers are recorded for timely follow-up and closure.
- Adequate visibility provided to customers on various channels of service and the levels of escalation.

- Complaints trends and adherence to resolution turn around time are monitored closely.
- Customer communication framework has been strengthened with key changes to tariff / service offering made available through monthly banking/card statements as well as through Bank's public website.
- Code of Conduct across customer facing units and vendors is reiterated on an ongoing basis and adherence is monitored. Violation of the code is dealt with severely.