



Connecting people,  
companies and  
markets worldwide

HSBC Holdings plc  
**Annual Review 2010**

**HSBC**   
The world's local bank

# Theme

We live and work in a fast-changing world. The economic centre of gravity is moving east and south; patterns of global trade are shifting; capital is more mobile than ever; and lifestyles are growing more international. As these changes take shape, the financial needs of our customers continue to grow ever more complex.

As one of the world's strongest universal banks, HSBC matches the many different needs of borrowers, lenders and investors large and small, while balancing risk more safely across the financial system. As a global bank with an unrivalled footprint across developed and

emerging regions, we connect individuals to their families, companies to their customers and institutions to markets, across 87 countries and territories. As the world's local bank, we bring our customers global knowledge, specialist advice and 24-hour market access – wherever they are based. As a team of 307,000, we work together to deliver a consistent proposition and the best service for our customers.

Using case studies from different areas across the business, the *Annual Review 2010* tells the multi-layered story of HSBC's connectivity, and explains how it works in practice for our customers.

## Connecting people, companies and markets worldwide...



**...by understanding our customers' lifestyles**  
pages 12-13



**...by facilitating global trade**  
pages 14-15



**...by realising new investment opportunities**  
pages 16-17

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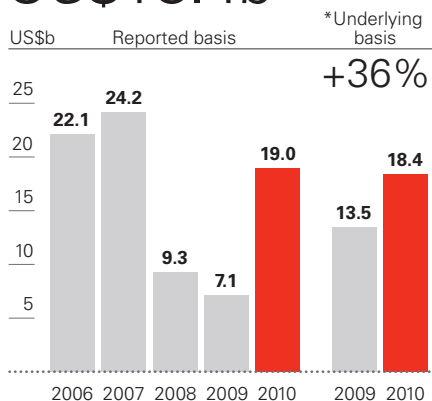
*Cover image:* An evening view of the Central Elevated Walkway in the Hong Kong SAR's business district. Used by tens of thousands of commuters every day, this walkway forms a vital artery through the heart of Asia's pre-eminent financial centre, which hosts over 190 banks and deposit-taking companies from all over the world. We rely on simple connections like this every day. However, in an increasingly complex, globalised economy, we also need organisations like HSBC that help us to make connections with people, companies and markets around the world.

# Highlights of 2010

## Financial highlights

### Profit before tax

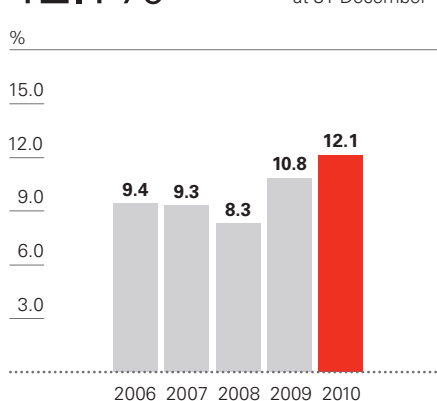
US\$18.4b\*



### Capital strength

12.1%

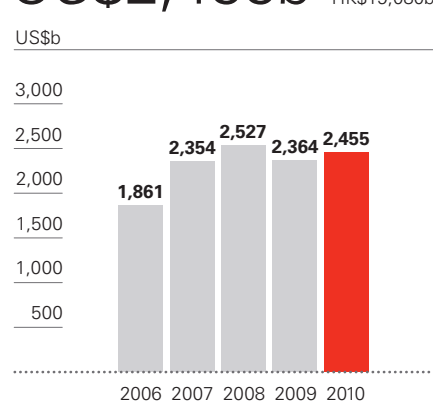
Tier 1 capital ratio at 31 December



### Assets

(reported basis)

US\$2,455b      £1,581b  
HK\$19,080b

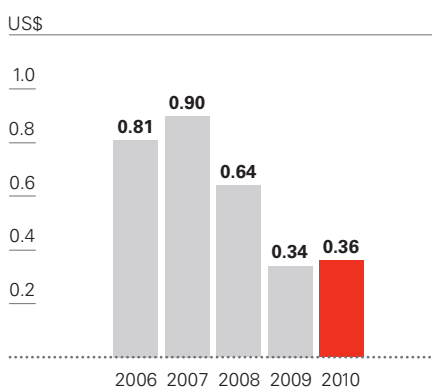


### Dividends per share

(in respect of year)

US\$0.36

£0.23  
HK\$2.80

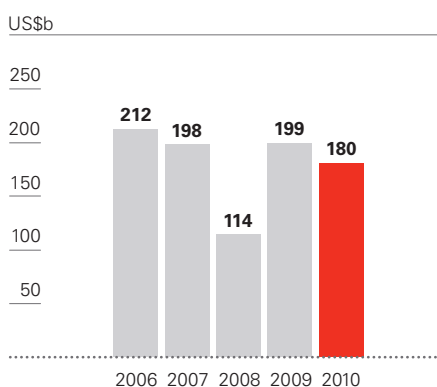


### Market capitalisation

at 31 December

US\$180b

£116b  
HK\$1,399b

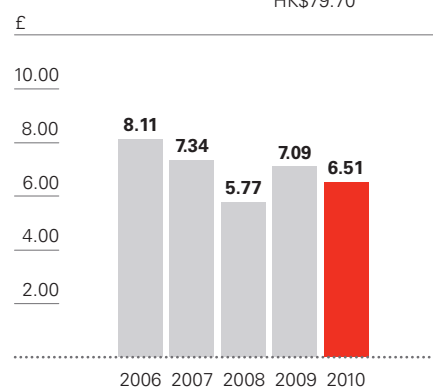


### Share price

at 31 December

£6.51

US\$51.04 American  
Depository Share  
HK\$79.70



## Operational highlights

- Profitable in every customer group and region, including North America, for the first time since 2006.
- Strengthened capital position, largely due to profit generation.
- Strong growth in emerging markets, with loans and advances to customers and revenue increasing in key markets.
- Faster growing markets accounted for 34% of customer lending.

# HSBC at a Glance:

## Our regions

HSBC is 'the world's local bank'. Founded in Hong Kong and Shanghai in 1865, we now serve around 95 million customers in 87 countries and territories around the world. Headquartered in London, we do business in Asia, Europe, the Middle East, Latin America and North America. HSBC was profitable in all regions in 2010.

### Europe

#### Overview

Profits from Personal Financial Services and Commercial Banking showed strong growth, but this was offset by a lower contribution from Global Banking and Markets as client activity fell. We continued to build long-term relationships by increasing the number of Premier and Advance customers, growing loans and advances to customers in our Personal Financial Services business by 3 per cent, and expanding our total UK mortgage market share to 5.2 per cent. In Commercial Banking, we remained open for business, increasing new lending to small and medium-sized enterprises in the UK by 19 per cent and further expanding export finance.

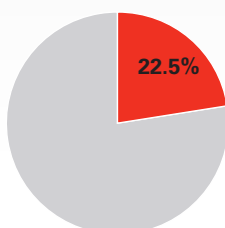


#### Highlights of 2010

- Increased net lending by US\$17.1 billion or 4 per cent.
- Supported 2,400 new business start-ups each week in the UK.

#### Contribution to profit before tax

US\$4,138m



### Hong Kong

#### Overview

HSBC is the number one bank in Hong Kong and we consolidated our position in 2010, supported by another strong financial performance. Profitability increased, driven by revenue growth, as we capitalised on improved economic conditions. Key contributors were higher sales of insurance and investment products, and increased volumes of lending and trade. Our Commercial Banking lending balances grew by 73 per cent. Our commercial and personal customer numbers, including Premier, also increased. We developed our offshore renminbi proposition where we maintained our position as a market leader.

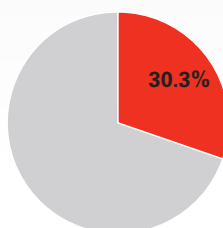


#### Highlights of 2010

- Number one provider of mortgages, cards, life insurance and deposits.
- 'Best Bank in Hong Kong': *Euromoney*.

#### Contribution to profit before tax

US\$5,562m



### Rest of Asia-Pacific

#### Overview

HSBC is the leading international bank in mainland China. Across the region, profits rose significantly in 2010, at the same level as Hong Kong for the first time. Lending volumes increased across the region, and we continued to target growth in priority markets. We doubled cross-regional referrals, winning new business in mainland China, Singapore, Australia and Malaysia. We opened our 100th branch in mainland China, expanded the number of Amanah branches in Malaysia by four, and announced our third investment in India in two years.

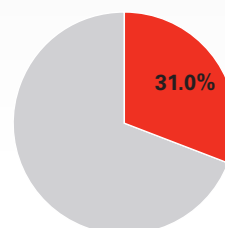


#### Highlights of 2010

- Topped Asian bond league tables (excluding Japan) with 359 deals worth over US\$27 billion.
- Maintained our leadership in renminbi product development, with renminbi capabilities in 36 countries across six continents.

#### Contribution to profit before tax

US\$5,691m



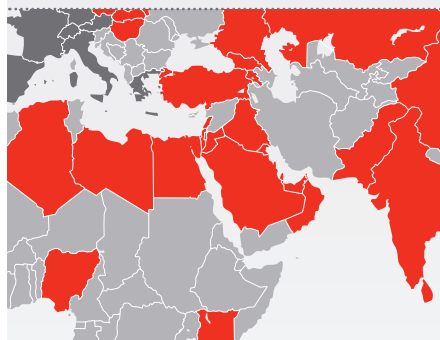
Unless otherwise stated, our performance is presented and discussed on pages 2 to 5 on an underlying basis, eliminating the effects of foreign currency translation differences, acquisitions and disposals of subsidiaries and businesses, and fair value movements on own debt attributable to credit spread, all of which distort year-on-year comparisons.

Key to maps:  
 ■ Emerging markets  
 ■ Developed markets  
 ■ No HSBC representation

## Middle East

### Overview

HSBC is the leading international bank in the Middle East, where we have been doing business for over 50 years. Profits doubled in 2010 as we managed down higher risk loan portfolios. Loan impairment charges fell significantly and lending volumes rose. We capitalised on our global connectivity to support business and trade flows between the region and the rest of the world, particularly mainland China and India.

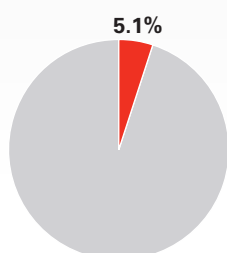


### Highlights of 2010

- Net new Premier customers increased by 35,000.
- 'Leading Trade Services Bank in the Middle East and North Africa': *Global Trade Review*; 'Best Investment Bank in the Middle East': *Euromoney*.

### Contribution to profit before tax

US\$934m



## North America

### Overview

HSBC returned to profit in North America in 2010. This improved performance was largely due to a marked decline in loan impairment charges, as we continued to reposition our core businesses and manage down our run-off assets. Our Card and Retail Services business remained profitable, as it was throughout the financial crisis. Profits doubled in Canada where we expanded our Commercial Banking business. We also increased Premier customer numbers by 37 per cent across the region with 190,000 net new customers and opened five new branches in three US states.

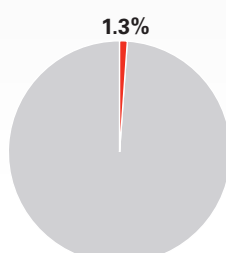


### Highlights of 2010

- Made a profit before tax for the first time since 2006.
- Card and Retail Services business recorded pre-tax profits of US\$2 billion.

### Contribution to profit before tax

US\$246m



## Latin America

### Overview

Profitability recovered by nearly 50 per cent. Loan impairment charges fell markedly, due to improved economic conditions and following our steps to manage down higher-risk portfolios and strengthen underwriting and collection processes. We grew lending by a healthy 17 per cent, driven by Commercial and Global Banking.

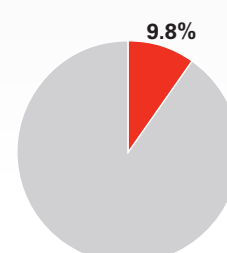


### Highlights of 2010

- Highest ever profits in Brazil – over US\$1 billion for the first time.
- Completed first-ever renminbi trade settlement in South America.

### Contribution to profit before tax

US\$1,795m



# HSBC at a Glance:

## Our customer groups and global businesses

As the world's leading international and emerging markets bank, HSBC provides a wide range of financial services to customers in both mature and faster-growing economies. We organise our business by two customer groups, Personal Financial Services and Commercial Banking; and two global businesses, Global Banking and Markets, and Global Private Banking. HSBC was profitable in all customer groups and global businesses in 2010.

### Personal Financial Services

#### Overview

HSBC provides Personal Financial Services to 92 million customers in over 60 markets worldwide. HSBC Premier, our flagship global customer proposition, increased customer numbers to 4.4 million across 47 markets, while HSBC Advance, our second global proposition, reached 4.6 million customers in 34 markets. Our global investment offering, World Selection, continued to grow, with total assets under management reaching US\$7.2 billion. We took steps to enhance our customer service, by hiring new relationship managers, investing in better systems, and developing our products.

#### Strategic focus

- To deepen customer relationships and develop our wealth management services, particularly in faster-growing markets.
- To provide a full range of financial products and services in markets where we have scale or where we can build scale. In other markets, to target mass affluent customers, especially those who can benefit from our international connectivity.



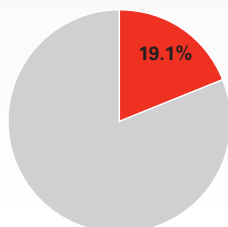
Singapore is a major centre for our Personal Financial Services business. Opened in 2010, the futuristic Helix Bridge spans Marina Bay, near Singapore's financial district.

#### Highlights of 2010

- Over 980,000 net new Premier customers.
- Maintained number one position in residential mortgage lending, credit cards, life insurance and deposits in Hong Kong.

#### Contribution to profit before tax

US\$3,508m



### Commercial Banking

#### Overview

We serve 3.6 million Commercial Banking customers across 65 countries, ranging from sole proprietors to publicly quoted companies. As the world's leading international and emerging markets bank, we are ideally placed to facilitate new trade flows. We increased lending by 21 per cent, driven by higher demand in Asia and by higher trade volumes. We also became the first international bank to complete renminbi trade settlements in six continents. Profit before tax increased by 48 per cent, as credit quality improved and revenues increased.

#### Strategic focus

- To be the best bank for small and medium-sized enterprises in our largest markets, providing working capital finance to businesses that trade internationally.
- To be the leading international business bank in all our markets, using our global network and product expertise to support customers who trade and invest globally.



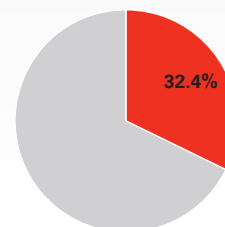
One of Europe's principal tyre and wheel wholesalers, Treadsetters has been a Commercial Banking customer since 2005.

#### Highlights of 2010

- Built presence in faster growing markets, which accounted for 67 per cent of profits before tax.
- In the UK, we increased new lending to small and medium-sized enterprises by 19 per cent and opened accounts for over 125,000 customers starting new businesses.

#### Contribution to profit before tax

US\$5,957m



## Global Banking and Markets

### Overview

We provide tailored financial solutions to major government, corporate and institutional clients worldwide. Global Banking and Markets is managed as a global business, with dedicated offices in over 65 countries and territories. Despite less benign market conditions, particularly in the euro zone, our Global Banking and Markets business recorded its second best performance so far, with profits before tax of US\$9.2 billion, reflecting a diversified and globally connected business, with a strong footprint in emerging markets. Eight business areas generated over US\$1 billion in operating income in 2010 – up from seven in 2009.

### Strategic focus

- To maintain our strong emerging markets-led and financing-focused strategy.
- To become a leading wholesale bank by using our global network and developing our capabilities in major hubs.



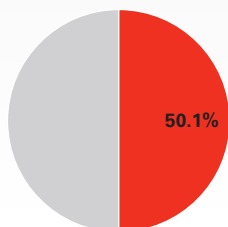
Hong Kong contributed 15 per cent to Global Banking and Markets' pre-tax profit in 2010.

### Highlights of 2010

- Strong contribution from faster growing markets, accounting for 56 per cent of Global Banking and Markets' profits before tax.
- 'Best Global Emerging Markets Bank': *Euromoney*.

### Contribution to profit before tax

US\$9,194m



## Global Private Banking

### Overview

Operating from 95 locations in 37 countries and territories, we offer a personal service to high net worth individuals in all major wealth-creating regions of the world. We offer our clients both traditional and innovative ways to manage wealth, preserving it for future generations, while also optimising returns. Reported client assets increased by US\$23 billion, due to net new money inflows and favourable market movements.

### Strategic focus

- To be the world's leading and most globally connected international private bank.
- To maintain our strong position for sustainable, long-term growth, through investment in our people, systems and services, particularly in emerging markets.



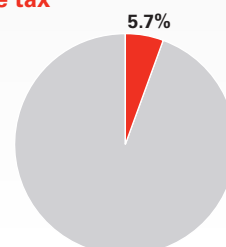
Traditional Chinese shophouses in Temple Street, Singapore, one of HSBC's key private banking centres in Asia.

### Highlights of 2010

- US\$13 billion of net new money (on a reported basis), benefiting from emerging market presence.
- 'Best Global Wealth Manager' and 'Best Private Bank in Asia': *Euromoney*.

### Contribution to profit before tax

US\$1,055m



# Group Chairman's Statement



**Douglas Flint** *Group Chairman*

“145 years after we were founded, Hong Kong and the rest of Asia remain at the heart of HSBC's strength and identity and our commitment to the region is unwavering.”

When I took on the role of Chairman less than 90 days ago, I was acutely aware of the challenges facing our industry. I was conscious too of the need to demonstrate to all of our stakeholders that HSBC understands the responsibilities that accompany the systemic significance which continued success has built for HSBC in many of the markets in which we operate, not least those in Asia, given their historical significance to the Group. 145 years after we were founded, Hong Kong and the rest of Asia remain at the heart of HSBC's strength and identity and our commitment to the region is unwavering.

I fully acknowledge that our scale, the trust that our depositors place in us and our relevance to our personal and corporate clients – for their financing, banking, investment and risk management needs – all depend upon our maintaining our reputation and our integrity.

I also understand how important it is for you, our shareholders, that HSBC builds sustainable long-term value that is reflected through the share price and rebuilds, as quickly as competing regulatory demands allow, the dividend that was reduced during the financial crisis.

I firmly believe that HSBC has the people, the financial strength and the organisational structure best able to deliver all of the above and it is a privilege to have the opportunity to serve as Group Chairman as we enter a fresh chapter in our history.

Before I go any further, I want to pay tribute to both Stephen Green and Michael Geoghegan, who stepped down at the end of last year from their roles as Group Chairman and Group Chief Executive after, respectively, 28 and 37 years' service to HSBC. It fell to them to be at the helm as HSBC navigated its way through the worst financial crisis



“Everything we do is governed by the imperative of upholding HSBC’s corporate reputation and character at the highest level and adding further strength to our brand...”

since the 1930s. Mike led from the front in addressing the problems in our consumer finance subsidiary in the United States and in reshaping HSBC’s organisational structure and operational practices in order to better and more efficiently serve an increasingly interconnected world. Stephen’s personal reputation for integrity and probity stood out and distinguished HSBC during a period of intense disaffection with the banking industry. For their contribution over many years we owe them a deep debt of gratitude and wish them both well.

#### **Our performance in 2010**

The ‘Group Chief Executive’s Business Review’ sets out clearly how HSBC delivered a much improved balance of profits in 2010. It is reassuring to see our Personal Financial Services businesses returning to profitability in aggregate and Commercial Banking growing significantly, largely in emerging markets. These achievements augmented another year of strong performance in Global Banking and Markets.

Earnings per share improved strongly, rising by 115 per cent to reach US\$0.73 per share.

The Group’s capital position also strengthened with the core tier 1 ratio, the ratio most favoured by regulators as it comprises equity capital after regulatory adjustments and deductions, increasing from 9.4 per cent to 10.5 per cent, largely due to profit retention throughout the year.

As a consequence of this strong capital generation, together with greater clarity on the direction of regulatory reform of capital requirements and an improving economic backdrop in the developed world – particularly in the United States – the Board has approved increases in both the final dividend payment in respect of 2010 and the planned

quarterly dividends for 2011. The final dividend for 2010, payable on 5 May 2011 to shareholders on the register on 17 March 2011, will be 12 cents per ordinary share, up from 10 cents at the same point last year. For the remainder of 2011, we plan to pay quarterly dividends of nine cents for each of the first three quarters compared with eight cents in respect of the equivalent quarters of 2010.

#### **A new leadership team**

We enter 2011 with a new leadership team, but only in the sense of changed roles. Everyone has worked together over many years and there is immense experience to draw on both from within HSBC and from earlier careers at peer organisations. Stuart Gulliver is leading the management team as Group Chief Executive. His clear objective is to deliver sustainable long-term value for shareholders consistently in a manner that maintains the confidence of all other key stakeholders in our businesses including depositors, counterparties, long-term creditors, customers, employees, regulators and governments. His review on pages 11 to 17 gives an insight into his immediate priorities.

Everything we do is governed by the imperative of upholding HSBC’s corporate reputation and character at the highest level and adding further strength to our brand; we deeply regret that a number of weaknesses in regulatory compliance were highlighted in 2010 and we are resolved to remedy these and reinforce the high standards we demand of ourselves.

For my part, I shall be focusing on engaging at the highest level in the regulatory reform debates that will, in large part, shape our future. I shall also lead the Board in the stewardship and review of performance of our financial and human resources.

In the interest of full transparency, we have today published on our website the respective roles and responsibilities of the Group Chairman, the Deputy Chairman and Senior Independent Director and the Group Chief Executive.

#### **Board changes**

I have already paid tribute to the contributions of Stephen Green and Michael Geoghegan. Vincent Cheng has indicated that he will step down at the next AGM and, on behalf of the Board, I want to thank him for his immense contribution in many roles over 33 years. Vincent will retain an association with the Group by taking on an advisory role to the Group Chief Executive on regional matters. Laura Cha will join the Board on 1 March; Laura has been Deputy Chair of The Hongkong and Shanghai Banking Corporation Limited for four years and brings a wealth of experience of China; fuller details of her background and experience are set out on page 23.

#### **Regulatory update**

There was much progress made during 2010 on the regulatory reform agenda. Although there is still a great deal to do, the shape of capital requirements was broadly clarified and an implementation timetable stretching out to 2019 was agreed to allow time for the industry to adjust progressively. A minimum common equity tier 1 ratio of 7 per cent, including a capital conservation buffer, has been agreed. HSBC already meets this threshold requirement. The ‘Group Chief Executive’s Business Review’ addresses how these revised requirements will impact our targeted return on equity.

During 2011, the debate will be dominated by consideration of the calibration of minimum liquidity standards. Although it is clear that liquidity and funding weaknesses were key elements contributing to the crisis, HSBC agrees with the industry

## Our Board: one team



**Douglas Flint, CBE**  
Group Chairman

**Stuart Gulliver**  
Group Chief Executive

**Vincent Cheng, GBS, OBE**  
Chairman, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited

**Sandy Flockhart, CBE**  
Chairman, Europe, Middle East, Africa, Latin America and Commercial Banking

**Iain Mackay**  
Group Finance Director



**James Hughes-Hallett, SBS**  
Non-executive Director

**Sam Laidlaw**  
Non-executive Director

**Rachel Lomax**  
Non-executive Director

**Gwyn Morgan, CM**  
Non-executive Director

**Narayana Murthy, CBE**  
Non-executive Director

consensus that the revised requirements in these areas are overly conservative and could lead to unnecessary deleveraging at a time of fragile economic recovery in much of the developed world. It will be a near impossibility for the industry to expand business lending at the same time as increasing the amount of deposits deployed in government bonds while, for many banks but not HSBC, reducing dependency on central bank liquidity support arrangements. It is to be hoped that the observation period, which starts this year and precedes the formal introduction of the new requirements, will inform a recalibration of these minimum liquidity standards.

A second debate of importance to HSBC's shareholders in 2011 will concern the designation of 'Systemically Important Financial Institutions' (SIFIs). Consideration is being given in the regulatory community to mandating higher capital requirements, together with more intense supervision, for institutions classified as SIFIs. We agree with heightened supervision but it is not clear that the reduced shareholder returns that would follow the imposition of incremental capital would be compensated for by improved stability. Classification as a SIFI with a requirement to hold incremental capital would, however, probably lead others to favour SIFIs as counterparties, and may therefore have the unintended consequence of further concentrating the industry.

HSBC's position is that systemic importance should not be determined by size alone. It is clear, however, that, on almost any basis, HSBC would be classified as systemically important. For this reason we are engaging fully in the debate around the consequences of designation as a SIFI. In particular, we draw attention to the benefits of our corporate organisation through separate subsidiaries in mitigation against the imposition of incremental capital for SIFIs based on size alone.

In October 2010, the UK government confirmed its intention to raise the sum of £2.5 billion (US\$3.9 billion) through a levy on bank balance sheets, and recently announced it will accelerate the full impact of this levy to 2011. We take no issue with the right of the



**Safra Catz**  
Non-executive Director

**Laura Cha, GBS**  
Non-executive Director

**Marvin Cheung, GBS, OBE**  
Non-executive Director

**John Coombe**  
Non-executive Director

**Rona Fairhead**  
Non-executive Director



**Sir Simon Robertson**  
Deputy Chairman, senior  
independent non-executive Director

**John Thornton**  
Non-executive Director

**Sir Brian Williamson, CBE**  
Non-executive Director

**Ralph Barber**  
Group Company Secretary

**David Shaw**  
Adviser to the Board

UK government to raise a levy on the banking industry, particularly when having had to risk taxpayers' money to rescue a number of important UK institutions. However, as the proposed levy is to be applied to the consolidated balance sheet, it applies beyond the legal boundary of the domestic institution to include overseas operations conducted through separately capitalised subsidiaries. This therefore constitutes an additional cost of basing a growing multinational banking group in the UK.

We intend to clarify in each set of results going forward the impact of the levy, split between UK and overseas operations, and Stuart Gulliver covers this in more detail in his review. We regard the levy, which is not tax

deductible, as akin to a distribution of profits. For this reason, we intend to add to future shareholder dividends that would otherwise be paid, any amount saved in the event that the levy is restructured or relieved in due course.

#### **The role of banks in society**

The recent crisis has caused a proper introspection as to the role that banks play in society and at HSBC we welcome this. Banking is not simply about money. It is about helping individuals and organisations within society to meet personal and corporate objectives by facilitating access to financial capital and protecting value for those who make capital available. Payment mechanisms, the provision of long-term credit, trade finance, hedging and other risk management products,

deposit, investment and retirement services are but a few of the activities through which banking groups contribute to today's financial system. Society cannot function without an effective financial system that delivers value to those it serves at an intermediation cost that is proportionate to the value created. Somehow, many participants and not just banks, lost sight of this basic principle in the run-up to the recent financial crisis and the consequences for all have, inevitably, been far reaching. There is no doubt that the scale of regulatory reform will bring many challenges, but it will also open new opportunities.

At HSBC, we shall not forget what happened to precipitate the scale of reform now underway. Although the

“Our duty to shareholders is to build sustainable value in the economic and competitive environment in which we operate and our principal resource for achieving this is human talent.”

financial turmoil arising from the events of 2007-2008 has largely moderated, in large part as a result of co-ordinated government action and support to the financial system, we enter 2011 with humility, ready to apply right across HSBC all of the lessons learned, notwithstanding that HSBC itself neither sought nor received support from any government.

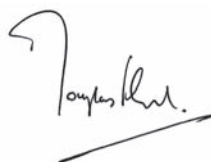
Society has a right to ask if banks 'get it'. At HSBC, we do – and we are focused on embedding the necessary changes in our business model for long-term sustainable value creation. But we also do not forget that value creation depends upon HSBC recruiting, training and retaining the right talent in order to manage the risks we accept through intermediating customer flows; design solutions to address complex financial problems; build enduring relationships with core customers; build confidence in the Group's financial strength; and create the strategic options that offer the next generation fresh opportunities to continue building sustainable value.

In this globalised world, there is intense competition for the best people and, given our long history within and connections into the faster-growing developing markets, our best people are highly marketable. It would be irresponsible to allow our comparative advantages to wither by ignoring the market forces that exist around compensation, even though we understand how sensitive this subject is. Reform in this area can only be achieved if there is concerted international agreement on limiting the quantum of pay as well as harmonising pay structures but there appears to be no appetite to take the initiative on this.

Our duty to shareholders is to build sustainable value in the economic and competitive environment in which we operate and our principal resource for achieving this is human talent. Under the governance of the Board, we will continue to operate and apply remuneration policies and practices that take full recognition of best practice and are aligned with the long-term interests of shareholders.

#### **HSBC's people**

Finally, I want to pay tribute to my 307,000 colleagues. So many of HSBC's people have exemplified commitment and endeavour again in 2010, helping our customers and clients to meet their financial objectives while taking on the additional burden of preparing for regulatory change. This has been done against a backdrop of continuing broad-based fiscal support to many economies, with public opinion consistently and highly critical of our industry. As I look forward, it is the combination of the capabilities of HSBC's people, their determination to do the right thing for our customers and their deep sense of responsibility to the communities they serve that makes me confident that HSBC will play a leading role in rebuilding the trust that our industry has lost and, by doing so, will build sustainable value for you, our shareholders.



**Douglas Flint**  
Group Chairman  
28 February 2011

# Group Chief Executive's Business Review



Stuart Gulliver Group Chief Executive

“...we will continue to target growth in the most strategically attractive markets for HSBC and build our capabilities in connectivity, one of our distinctive strengths as a globally connected bank.”

Underlying financial performance continued to improve in 2010 and shareholders continued to benefit from HSBC's universal banking model. All regions and customer groups were profitable, as Personal Financial Services and North America returned to profit. Commercial Banking made an increased contribution to underlying earnings and Global Banking and Markets also remained strongly profitable, albeit behind 2009's record performance, reflecting a well-balanced and diversified business.

Credit experience continued to improve, as a result of a stronger global economy and our actions to reduce balance sheet risk. As a globally connected bank with a growing presence across the world's faster-growing regions, HSBC also benefited from higher trade volumes and strong momentum in emerging economies, especially in Asia. Asia contributed the largest proportion to underlying pre-tax profits, while the contributions made by Latin America and the Middle East also increased. Together with our conservative

management of the balance sheet, this improved performance allowed us to concentrate on serving our customers and to further strengthen our capital position.

#### Group performance headlines<sup>1</sup>

- Profit before tax improved year on year. On a reported basis, profits increased by nearly US\$12 billion from US\$7.1 billion to US\$19 billion. On an underlying basis, profits increased by 36 per cent, or almost US\$5 billion, from US\$13.5 billion to US\$18.4 billion.

<sup>1</sup> All figures are on a reported basis and all references to profits are profits before tax unless otherwise stated.



Connecting people with the world's financial markets...

...by understanding our customers' lifestyles



## ◀ **HSBC Premier: tapping into our global network**

**This HSBC Premier customer divides her time between two cities in two countries on two continents. Living in Paris and paying frequent visits to her family in Chennai, India, she needs a bank account that complements her lifestyle. An account with the Premier Centre on the Champs Elysées (bottom left) – which opened in 2010 and is one of HSBC's largest Premier centres – fits the bill.**

**As a customer, she can tap into our global network and all the benefits that it provides. Not only does she now have easy access to her money wherever she is, but her Relationship Manager in Paris recently helped her open another Premier account, in Chennai (top) to facilitate her aim of purchasing a house near her relatives.**

**Premier is also helping her to maximise her savings. HSBC's World Selection Fund is an investment vehicle that uses our local experts worldwide to advise on investments in emerging markets, and a fund manager to manage the fund proactively to reduce risks and maximise returns.**

**Moving money online between her French and Indian accounts, and using her Premier MasterCard to pay in Indian rupees when dining out with family and friends (bottom right), our customer has found a banking relationship that matches her modern lifestyle.**

- In a period of sustained low interest rates, revenues remained constrained, reflecting four principal factors: reducing loan balances in our US business; lower trading income in Global Banking and Markets resulting from lower client activity; adverse fair value movements on non-qualifying hedges; and a reduced contribution from Balance Sheet Management in line with earlier guidance.
- Strong asset growth in Commercial Banking, particularly in Asia, higher trade-related revenues generally, and expansion of our wealth management business, again most notably in Asia, partially offset these revenue pressures.
- Loan impairment charges reduced by almost half to US\$14.0 billion. All regions and customer groups improved. The US experienced the greatest improvement, largely in the cards and consumer finance portfolios. Loan impairment charges also declined significantly in Latin America and the Middle East.
- In Global Banking and Markets, loan impairment charges fell significantly, notably in Europe as economic conditions improved. Credit risk provisions reduced by US\$1 billion to US\$0.4 billion in the available-for-sale asset-backed-securities portfolios due to a slowing in the rate of anticipated losses on underlying assets, in line with previous guidance. The associated available for sale reserve declined to US\$6.4 billion from US\$12.2 billion.
- The cost efficiency ratio rose to 55.2 per cent, which is above our target range and unacceptable to me. The causes were constrained revenues and, in part, investment in strategic growth initiatives across the business together with higher staff costs. It additionally reflected one-off payroll taxes of US\$0.3 billion paid in 2010 in respect of the previous year and a pension accounting credit of US\$0.5 billion in 2009 and US\$0.1 billion in 2010. However, it is also clear that we need to re-engineer the business to remove inefficiencies.
- Return on average total shareholders' equity rose from 5.1 per cent to 9.5 per cent, reflecting increased profit generation during the year.
- HSBC continued to grow its capital base and strengthen its capital ratios further. The core tier 1 ratio increased from 9.4 per cent to 10.5 per cent, as a result of capital generation and lower risk-weighted assets.
- Total loans and advances to customers increased by 7 per cent to US\$958 billion while deposits increased by 6 per cent to US\$1.2 trillion.

### **Impact of the evolving regulatory environment on the business**

Much of the detail around the potential impact of change for banks remains uncertain. However, analysis of what we know confirms that our ability to generate capital and manage our risk-weighted assets positions HSBC strongly – and competitively – within the industry as the pace of change intensifies.

HSBC fully supports the rationale of the Basel III proposals which require banks to hold more capital. This is absolutely core to ensuring that governments and taxpayers are better protected in future than they have been in the past.

Certain aspects of the Basel III rules remain uncertain as to interpretation and application by national regulators. Notably, this includes any capital requirements which may be imposed on the Group over the implementation period in respect of the countercyclical capital buffer and any additional regulatory requirements for SIFIs. However, we believe that ultimately the level for the common equity tier 1 ratio of the Group may lie in the range 9.5 to 10.5 per cent. This exceeds the minimum requirement for common equity tier 1 capital plus the capital conservation buffer.

We have estimated the pro forma common equity tier 1 ratio of the Group based on our interpretation of the new Basel III rules as they will apply from 1 January 2019, based on the position of the Group at year-end 2010. The rules will be phased in from 2013 with a gradual impact and we have estimated that their full application, on a pro forma basis, would result in a common equity tier 1 ratio which is lower than the



Connecting businesses with new markets...

...by facilitating global trade





## ◀ A virtuous circle: creating export opportunities

The journey that these tyres make exemplifies the connections that criss-cross the global economy. Starting life in the Hengfeng Rubber and Plastic factory in Shandong Province, China (top), the tyres are shipped directly to Treadsetters' appointed dealers worldwide or to its distribution facility in Telford, UK (bottom left), before finally being delivered to the customer. A typical end-use for Treadsetters' tyres is found at this gold mine in Kalgoorlie, Western Australia (bottom right) – on earthmovers used to haul rock out of the mine tunnels.

Treadsetters became an HSBC customer in 2005. We have fostered a strong relationship with the company, providing long-term loan, receivables and import finance facilities to help it expand. As a result, Treadsetters has achieved an eightfold increase in turnover in five years and launched a range of budget tyres, representing a milestone in accessing new export markets.

The company took part in HSBC's Business Thinking programme, created in 2010 to broaden the horizons of some of the UK's most innovative small and medium-sized enterprises. Through a trip to China, Mexico or Turkey, these SMEs have gained fresh insights into business in key emerging markets.

Treadsetters, which won a regional Business Thinking award, is now one of Europe's principal tyre and wheel wholesalers, exporting to over 30 markets worldwide.

Basel II core tier 1 ratio by some 250-300 basis points. The changes relate to increased capital deductions, new regulatory adjustments and increases in risk-weighted assets. However, as the changes will progressively take effect over six years leading up to 2019 and as HSBC has a strong track record of capital generation and actively manages its risk-weighted assets, we are confident in our ability to mitigate the effect of the new rules before they come into force.

Last year, HSBC committed to reviewing its target shareholder return on equity once the effects of new regulation became clearer. Now that we have better visibility on the impact of increased capital requirements, we believe that higher costs of the evolving regulatory framework will, all other things being equal, depress returns for shareholders of banks. We will therefore target a return on average shareholders' equity of 12 to 15 per cent in the future.

As Group Chief Executive, it is right that, in managing the business and developing Group strategy, my principal office should be in Hong Kong – a global financial hub of growing importance at the centre of HSBC's strategically most important region. However, the company is headquartered in London and we hope to remain there. London's pre-eminence as an international financial services centre is widely recognised and well-deserved and reflects successful government policy over decades to build that position. It is therefore important to us that the UK's competitive position is protected and sustained. Appropriate supervision is an important part of the larger equation. Policymakers should continue to legislate and regulate, but they must not destroy London's competitive position in the process.

As the Group Chairman has outlined, new legislation is expected to be enacted in the UK, effective from the start of 2011, one curious consequence of which is an explicit incremental cost of being headquartered in the UK for any global bank. Had this been applied for 2010, this annual charge would have amounted to approximately US\$0.6 billion in HSBC's case. Moreover, the overseas balance sheet would account for the majority of the

annual charge, with the UK balance sheet accounting for approximately one-third of the total.

### Outlook

We have been closely watching events unfold in parts of the Middle East and North Africa. Our primary concern is for the security of our 12,000 staff across the region and we continue to work to ensure their safety. We have also activated robust continuity plans so that we can also stay open for business and support the needs of our customers. As a strongly capitalised global bank, HSBC's financial performance has not been materially affected by events to date. HSBC has been present in the Middle East for more than 50 years and we remain absolutely committed to its future. We also believe that the region's economies have a number of structural strengths which leave us positive on the longer-term outlook.

In the short term, risks to global growth remain, not least from an elevated oil price. We therefore expect cyclical volatility to continue – including in emerging markets – and progress is unlikely to be linear. In the longer term, we believe that growth rates in many Western markets will continue to significantly underperform those of the emerging world. Emerging markets are no longer simply leading the recovery from a Western crisis; the growth gap has become a sustained secular trend.

The global economy's structural position also still requires fundamental readjustment. Many Western economies must still deal with a large overhang of household and government debt and weak growth and high unemployment will make this a slow and painful process. As faster-growing nations seek to limit the effect of Western monetary policy on their own economies, we cannot discount the risk of increased tension over exchange rate and trade issues.

HSBC's balance sheet remains strongly positioned to benefit from future interest rate rises. We are realistic that, in many developed countries at least, historically low rates may continue to constrain income growth in the near-term. Nevertheless, maintaining a conservative liquidity position is core to our proposition and to our funding



Connecting investors with exclusive assets...

...by realising new investment opportunities



strength. In our risk appetite statement approved by the Board, we have set a maximum advances-to-deposits ratio for the Group of 90 per cent. This underlines our continuing commitment to a high level of liquidity and reflects our philosophy that HSBC should not be reliant on wholesale markets for funding. Even with a ratio currently slightly below 80 per cent, we have capacity for further lending growth.

In the short term, we expect the benefits of asset growth achieved in 2010 to continue to flow into revenues. In the medium term, we will continue to target growth in the most strategically attractive markets for HSBC and build our capabilities in connectivity, one of our distinctive strengths as a globally connected bank.

At the same time, with demand in many developed markets constrained and interest spreads remaining compressed, we fully recognise the importance of ever more robust cost management discipline and the need to continue re-engineering the business to improve efficiency.

Furthermore, capital is becoming a scarcer resource and, as a new regulatory environment evolves, I am committed to making capital allocation a more disciplined and rigorous process at HSBC in order to drive the correct investment decisions for the future.

We will talk more to investors about each of these initiatives later in the spring. However, as a result of this focus, we are committed to delivering a cost efficiency ratio and a return on average shareholders' equity within our published target range.

We also recognise the importance of reliable dividend income for our shareholders and I believe it should be possible to benchmark a payout ratio of between 40 to 60 per cent of attributable profits under normal market conditions.

In closing, I would like to acknowledge the huge contribution that my predecessor, Mike Geoghegan, made to HSBC in his five years as Group Chief Executive – not least during 2010 – and I wish him well for the future.

Finally, I am pleased to report that we have had a good start to the year, with continued momentum in lending, mainly in emerging markets and in respect of global trade.



**Stuart Gulliver**  
Group Chief Executive

28 February 2011

### ◀ **Alternative investment Club Deal Programme: making new connections**

**1540 Broadway, Times Square, New York: this 44-storey, 907,000-square-foot 'trophy' office building in one of the world's global cities is an attractive investment opportunity (top and bottom right).**

**In 2010, HSBC Alternative Investments in London, working with a fund adviser in the US, secured a 49 per cent stake in the prime commercial property in an exclusive 'off market' deal for a select group of HSBC Private Bank clients, each of whom invested a minimum of US\$5 million. Using our global reach, we put together a syndicate of Private Bank clients from both developed and emerging markets – including high net worth investors from our major Asian Private Banking centres (bottom left) – who shared the aim of building a diversified real estate investment portfolio. Such a high value investment would not normally have been available to individual investors.**

**Our Club Deal Programme currently focuses on investments in the US and Europe, but plans to expand to Asia.**

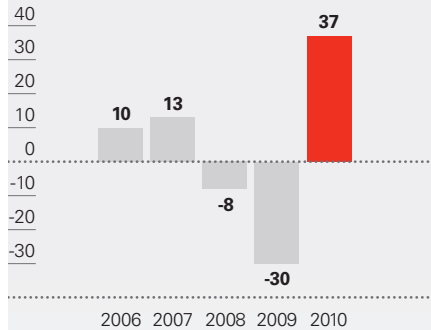
# Key Performance Indicators

## Monitoring our performance

The Board of Directors and the Group Management Board, which operates as a general management committee under the direct authority of the Board, monitor HSBC's progress against its strategic objectives. Progress is assessed by comparison with our strategy, our operating plan targets and our historical performance, using both financial and non-financial measures. We have seven financial and three non-financial key performance indicators.

### Strategic objective: deliver consistent earnings and superior risk-adjusted returns

**Risk-adjusted revenue growth (%)**  
(2010: underlying revenue growth 15%)

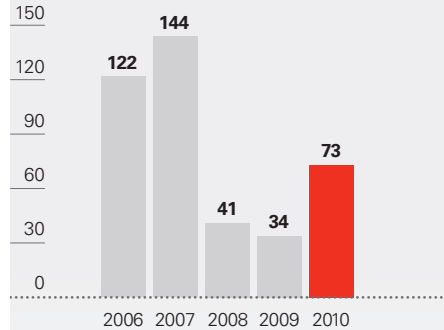


**Measure:** percentage increase in reported net operating income after loan impairment and other credit risk charges since last year.

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

**Outcome:** reported risk-adjusted revenue increased, primarily due to a reversal of adverse movements in prior years on the fair value of own debt designated at fair value and lower loan impairment charges. The latter also drove the increase in underlying revenue.

**Basic earnings per ordinary share**  
(US cents)



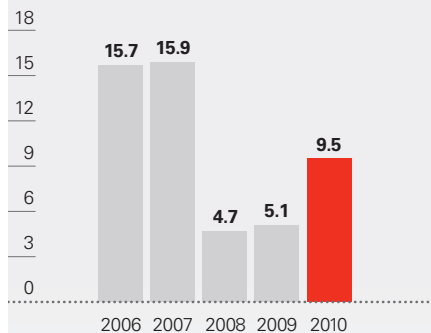
**Measure:** level of basic earnings generated per ordinary share.

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

**Outcome:** earnings per share increased in 2010, reflecting significantly lower adverse movements on the fair value of own debt due to credit spreads and lower loan impairment charges, which resulted in an increase in reported profit.

### Strategic objective: maintain capital strength and strong liquidity

**Return on average total shareholders' equity (%)**

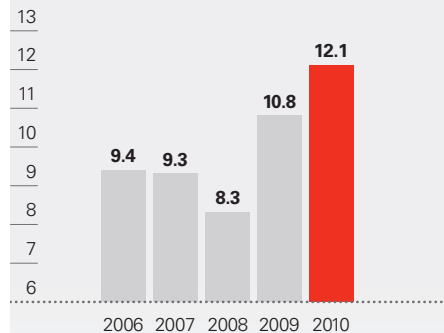


**Measure:** (percentage) profit attributable to shareholders divided by average total shareholders' equity.

**Target:** to maintain a return in the medium term of between 15% and 19%. In 2011, we intend to replace the target with one in the 12% to 15% range over the normal cycle.

**Outcome:** return on equity was below the target range, but 4.4 percentage points higher than in 2009.

**Tier 1 capital (%)**



**Measure:** component of regulatory capital comprising core tier 1 and other tier 1 capital.

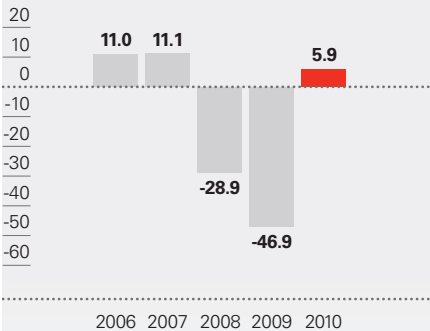
**Target:** to maintain a strong capital base to support the development of the business and meet regulatory capital requirements at all times.

**Outcome:** the increase in tier 1 capital to 12.1% reflected the contribution of profit to capital, the issue of hybrid capital securities during the year, and careful management of risk-weighted assets.

See our Annual Report and Accounts 2010, page 11 for more background information.

**Strategic objective: enhance efficiency using economies of scale**

**Dividends per share growth (%)**

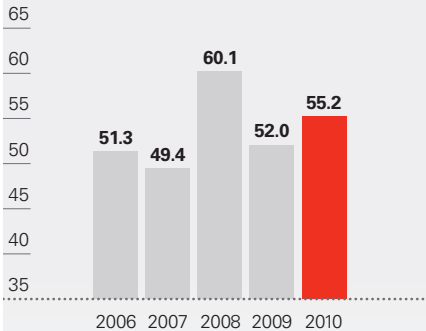


**Measure:** percentage increase in dividends per share since last year, based on dividends paid in respect of the year to which the dividend relates.

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

**Outcome:** dividends per share increased by 5.9%.

**Cost efficiency (%)**



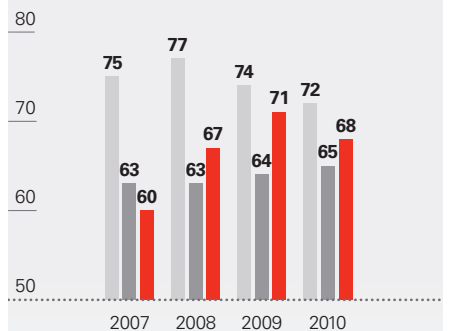
**Measure:** (percentage) total operating expenses divided by net operating income before loan impairment and other credit risk provisions.

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

**Outcome:** the ratio was outside the target range, in part due to one-off costs, but also increased investment in operational infrastructure and strategic initiatives.

**Strategic objective: motivate staff to deliver strategy**

**Employee engagement (%)**



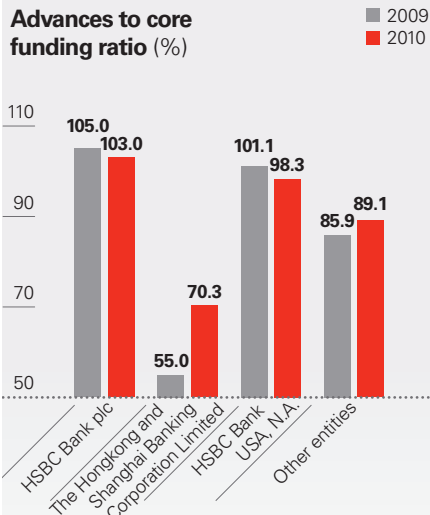
**Measure:** percentage measure of employee's emotional and rational attachment to HSBC, a combination of advocacy, satisfaction, commitment and pride.

**Target:** to achieve a 72% global rating in 2010, with progressive improvement to best in class by 2011.

**Outcome:** 68%, mirroring the fall in global best in class but remaining well above the financial services average.

**Strategic objective: reach new customers and expand services to existing customers using the HSBC brand and global network**

**Advances to core funding ratio (%)**

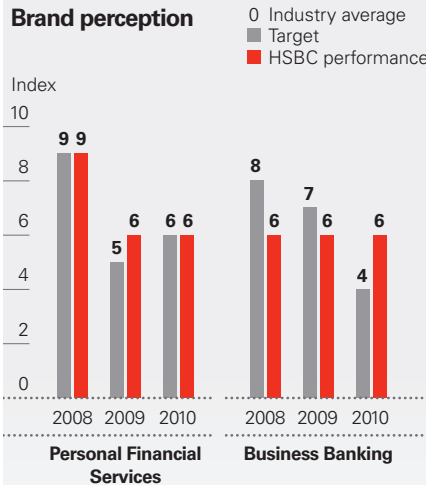


**Measure:** current loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year.

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

**Outcome:** ratio within the limits set by the Risk Management Meeting for each site.

**Brand perception**

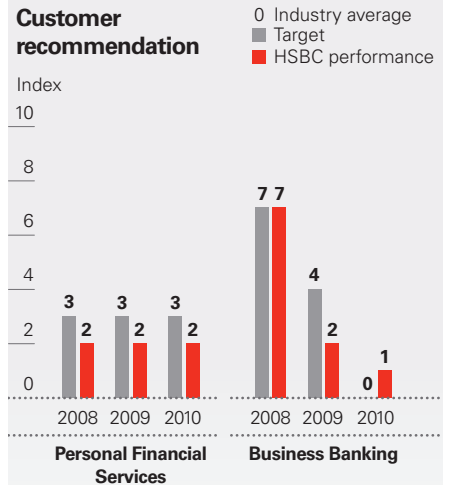


**Measure:** an independent survey of brands around the world which judges their relative strength. The results are used to form a brand perception index, where the industry average is zero.

**Target:** to meet or exceed targets based on performance against key competitors and the industry average.

**Outcome:** Personal Financial Services and Business Banking customers judged HSBC's brand to be six points stronger than the competitor average. Our ratings met or exceeded our targets in 2010.

**Customer recommendation**



**Measure:** an independent survey of customers in up to 15 countries which judges how likely they are to recommend a particular brand. The results are used to create a customer recommendation index, where the industry average is zero.

**Target:** to meet or exceed targets based on performance against key competitors and the industry average.

**Outcome:** Business Banking exceeded its target. Personal Financial Services fell short of its challenging target, but remained well above the competitor average.

## Risk management

All banking activity involves taking risk. Our risk management framework allows us to analyse, evaluate and manage the risks that are part of our business.

HSBC's strong performance in 2010 was achieved while taking a measured approach to risk. By maintaining a strong balance sheet, reducing exposure to riskier asset classes, and managing a diversified lending portfolio across our regions, customer groups and products, we continue to ensure that risk is effectively and strategically managed, and that we are not dependent on a few countries or markets to generate income and growth.

Our risks fall into eight main categories.

### Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to make a contractual payment.

*Mitigation* HSBC maintains a strong culture of responsible lending and a robust risk policy and control framework. All areas of the business are required to re-evaluate risks continually under different scenarios. We ensure that there is independent expert scrutiny of credit risks, their costs and mitigation.

### Liquidity and funding risk

This is the risk that we do not have sufficient financial resources to meet our obligations as they fall due.

*Mitigation* The objective of our liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due and that we can respond quickly to unforeseen liquidity requirements. HSBC maintains a diversified and stable funding base, further supported by wholesale funding and widely based portfolios of highly liquid assets.

### Market risk

This is the risk that movements in market factors, such as interest rates or credit spreads, will reduce our income or the value of our portfolios.

*Mitigation* We use a range of tools to manage and control our exposure to market risk. In doing so, we optimise return on risk, while maintaining a market profile consistent with our status as one of the world's largest financial services organisations.

### Operational risk

Operational risk is inherent in every business and includes losses arising from fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events.

*Mitigation* Our operational risk framework is aimed at managing and, where possible, controlling these risks in a cost-effective way. Each of our subsidiaries is responsible for controlling operational risk in line with the scale of their business.

### Pensions risk

HSBC operates a number of pension plans around the world.

*Mitigation* A primary risk is that investments deliver returns below that required to provide the projected benefits. Interest rates or inflation can cause an increase in the scheme liabilities, or scheme members can live longer than expected, causing a deficit in the plans. Our investment strategy is determined after taking these market risks into account.

### Reputational risk

Reputational risk is of paramount importance to our continued prosperity and safeguarding our reputation is the responsibility of every member of staff.

*Mitigation* Our good reputation depends on the way we do business and so we regularly review our policies and procedures to ensure they guard against new reputational risks.

### Sustainability risk

This arises from providing financial services to companies, which may result in an adverse impact on sustainable development.

*Mitigation* A thorough assessment of whether the environmental and social impact of financing particular projects outweighs the economic benefit is firmly embedded in our overall risk management process. Our Group Corporate Sustainability team has clear accountability for managing these risks globally.

### Insurance risk

The principal insurance risk HSBC faces is that the cost of acquiring and administering a contract, claims and benefits may exceed the amount of premiums received and investment income.

*Mitigation* We manage this risk by using controls and processes appropriate to the product concerned, including exercising underwriting controls, and using third-party reinsurers.

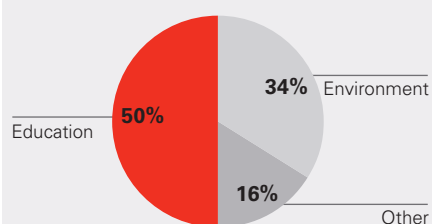
# Managing our Business Responsibly

## Sustainability

### Total community investment donations 2010

US\$108 million

### Breakdown of donations 2010



### Highlights of 2010

- **Global employee survey results showed 81 per cent of employees are satisfied with the actions we are taking to embed sustainability, e.g. environmental and social issues, into the way our business is run.**
- **Commitment to a further US\$15 million over five years for the Future First programme from 2011.**
- **Two major investments in 'climate business' opportunities in 2010: Better Place and Bloom Energy.**
- **Our energy sector policy was reviewed and relaunched.**

"To be a sustainable business in today's world means applying our understanding of economic, social and environmental drivers to our strategy and the way we work. HSBC has always taken this long-term view and will continue to do so for our future success."

**Douglas Flint**  
Group Chairman

### Overview

Responsibility and sustainability are core to the way we do business at HSBC. Our business philosophy is about tight governance, taking a long-term view, investing in customer relationships and maintaining strong capital and liquidity positions. It is because of this approach that we are able to contribute to sustainable economic, social and environmental development. Over time, we believe that this approach leads to an enhanced reputation, greater employee engagement, increased revenues and reduced risk, ultimately delivering sustainable value to our shareholders.

As part of our commitment to the societies in which we operate, HSBC also supports community investment projects around the world. In 2010, our funding for these projects reached US\$108 million.

Here we take a look at three broad areas: supporting our customers, supporting communities and tackling climate change.

### Supporting our customers

The effects of the financial crisis and recession are still being felt around the world. Throughout this period, just as during earlier regional crises, for example in Asia in 1997 and Argentina in 2001, HSBC has remained open for business, without needing support from governments. Our ability to provide a safe haven for our customers' deposits and to fund their business and personal needs is essential in driving economic

recovery and growth, and is an important part of what it means to be a sustainable bank.

In the UK, our lending criteria have not materially changed during the last two years, and we have continued actively to look for new business opportunities. Our gross new lending to small and medium-sized enterprises increased by 19 per cent in 2010 on the previous year, and we helped over 2,400 new start-up businesses a week. We provided increased support to UK companies to export to countries around the world, increasing international trade finance by 13 per cent and using our global network to make new connections between our customers in different markets. We also recruited an additional 139 international commercial managers to support UK businesses to expand into new markets.

In the Asia-Pacific region, HSBC is actively participating in local government loan schemes, helping small and medium-sized enterprises to recover, consolidate and grow. As part of this, we have offered US\$3.9 billion of credit facilities to small and medium-sized enterprises in the Hong Kong SAR, Singapore, Taiwan and Malaysia.

We also want to support our personal customers. In the UK, we approve eight out of 10 mortgage applications – a number that has remained unchanged since before the start of the crisis. When things go wrong, we view repossession as a last resort.

 See our *Annual Report and Accounts 2010*, pages 212-213 for further analysis.

**Distribution of economic benefits**

		2008	2009	2010
Net cash tax outflow <sup>1</sup>	US\$b	<sup>2</sup>	5.2	<b>5.8</b>
Distributions to shareholders and non-controlling interests	US\$b	12.1	6.5	<b>7.1</b>
Employee compensation and benefits	US\$b	20.8	18.5	<b>19.8</b>
General administrative expenses including premises and procurement	US\$b	15.3	13.4	<b>15.2</b>

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

2 New metric developed in 2009.

Our UK share of repossessions is low at 1.4 per cent compared with our share of mortgage balances at 5.2 per cent. This reflects not only the quality of our mortgage book, but also our commitment to, and investment in, providing restructuring support for customers wherever possible.

In the UK last year, Money Management teams were able to help 26,000 customers to solve their financial difficulties. Similarly, in the US, since 2007 we have modified or restructured over 353,000 mortgages and, in 2010 alone, we helped over 10,000 customers to avoid foreclosure and the associated costs, either by selling their property or relinquishing their deeds. In Hong Kong, we supported almost 1,400 low income home owners through the government's resale of Home Ownership Scheme flats to enable them to purchase subsidised housing.

To help people manage their finances and avoid unmanageable debt, we invest in educational initiatives, particularly in improving financial awareness. In 2010, for example, we donated almost US\$10 million to organisations promoting these programmes, and over 3,000 of our staff gave their time as volunteers.

**Supporting communities**

HSBC operates in 87 countries and territories around the world, many of which are emerging markets where we expect to see the fastest economic growth in the coming years. Some of the world's poorest people live in these countries. Access to education will be essential to enable them to engage in, and benefit from, increased prosperity in the years to come.

Two of our flagship community investment programmes provide education and life skills training to disadvantaged children. In 2010, our five-year US\$10 million Future First programme supported children in 39 countries and, in March 2011, HSBC committed an extra US\$15 million to extend it for another five years and expand it to Africa. A second initiative, JA More Than Money™, supported financial education and business literacy training programmes in 28 countries.

However, our work is not just about philanthropy; we also work with partners to offer financial services to customers who fall outside the traditional banking model. We work with microfinance institutions in Asia and Latin America, empowering individuals to gain financial independence and help their communities to prosper. Access to financial services can drive economic development and business literacy in rural communities, which in turn offer new commercial opportunities. In 2010, we made available US\$48 million of credit facilities to microfinance institutions in India, Sri Lanka, Bangladesh and the Philippines.

Demographic shifts also create opportunities. In Hong Kong, we are looking to the future by nurturing responsible money management habits among the younger generation. We have developed an online portal exclusively for young people to learn about these issues. Since its launch in June 2010, it has attracted great interest with over one million page views and nearly 30,000 registered users.

**Tackling climate change**

Climate change has implications for all of our stakeholders. We believe that there is huge scope for our customers to benefit not only through mitigating the effects of climate change on their businesses, but also by reviewing the economic and investment opportunities that it presents. HSBC estimates that the size of the 'climate business' sector – the value of products and services linked to resolving the issues of climate change – is now more than US\$530 billion, and could exceed US\$2 trillion by 2020.

In 2010, we continued our work to identify and maximise new markets and new technologies which will pave the way to a low carbon economy. We made two major equity investments in the climate business sector: US\$125 million in Better Place, a leading provider of the infrastructure necessary for recharging electric vehicles on a large scale; and a minority stake in Bloom Energy, a California-based manufacturer of solid oxide fuel cells. Developing and leading the commercialisation of this low emission, low cost, electricity-generation technology is at the core of HSBC's strategy to understand and prioritise climate business opportunities.

In 2010, in response to changes in the regulatory and commercial environment and in the scientific understanding of the environmental impacts of power sources, we conducted a review of our policy for lending to companies in the energy sector. It is clear that, alongside the environmental imperative of renewable energy, coal, nuclear and oil sands will all have a role to play in ensuring that the energy needs of homes and businesses are met, at least in the short term. As a result, HSBC is the first major commercial bank to set carbon intensity thresholds for its lending to coal-fired power plants, creating greater certainty for clients and, we believe, promoting economic and environmental sustainability for the long term.

Our forthcoming *Sustainability Report 2010* will provide more detail on this work and on our overall approach to sustainability.



# Our Board: Promoting Your Interests

## Board of Directors

### **Douglas Flint, CBE**

#### **Group Chairman**

Age 55

Group Chairman and chairman of the Nomination Committee with effect from 3 December 2010. Joined HSBC as Group Finance Director in 1995 and served as Chief Financial Officer, Executive Director, Risk and Regulation from 1 February 2010 until 3 December 2010. A non-executive director of BP p.l.c. since January 2005 and chairman of its Audit Committee since April 2010 but will retire at the BP AGM in April 2011. Director of The Hong Kong Association with effect from 6 February 2011. Co-chairman of the Counterparty Risk Management Policy Group III in 2008. Chaired the Financial Reporting Council's review of the Turnbull Guidance on Internal Control in 2004. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. Served on the Large Business Forum on Tax and Competitiveness and the Consultative Committee of the Large Business Advisory Board of HM Revenue and Customs. A former partner in KPMG.

*Mr Flint has extensive governance experience gained through membership of the Boards of HSBC and BP as well as considerable knowledge of finance and risk management in banking, multinational financial reporting, treasury and securities trading operations. In 2006 he was honoured with a CBE in recognition of his services to the finance industry. He is a member of the Institute of Chartered Accountants of Scotland and the Association of Corporate Treasurers and he is a Fellow of The Chartered Institute of Management Accountants.*

### **Stuart Gulliver**

#### **Group Chief Executive**

Age 51

Group Chief Executive and chairman of the Group Management Board since 1 January 2011. An executive Director since 2008. Joined HSBC in 1980. Appointed a Group General Manager in 2000 and a Group Managing Director in 2004. Chairman of The Hongkong and Shanghai Banking Corporation Limited with effect from 1 January 2011. Chairman of HSBC France since January 2009 and of HSBC Private Banking Holdings (Suisse) SA since 25 February 2010. Deputy chairman of HSBC Trinkaus & Burkhardt AG since 2007 and a member of its Supervisory Board since 2006. Chairman, Europe, Middle East and Global Businesses until 31 December 2010. Chairman of HSBC Bank plc from 21 April 2010 to 31 December 2010 and of HSBC Bank Middle East Limited from 15 February 2010 to 31 December 2010. Head of Global Banking and Markets from 2006 to 2010 and co-head from 2003 to 2006. Head of Global Markets from 2002 to 2003. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002.

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

### **Safra Catz†**

Age 49

President of Oracle Corporation. A non-executive Director since 2008. Managing Director of Donaldson, Lufkin & Jenrette from 1997 to 1999. Joined Oracle in 1999 and appointed to the Board of Directors in 2001.

*Ms Catz brings to the Board a background in international business leadership, having helped transform Oracle into the second biggest producer of management software and the world's leading supplier of software for information management.*

### **Laura Cha†, GBS**

Age 61

*(Appointed 1 March 2011)*

Non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited. A non-executive Director with effect from 1 March 2011. A non-official member of the Executive Council of Hong Kong SAR. Director of Hong Kong Exchanges and Clearing Limited, Tata Consultancy Services Limited and China Telecom Corporation Limited. Chairman of the ICAC Advisory Committee on Corruption and of the University Grants Committee in Hong Kong. Vice-chairman of the International Advisory Council of the China Securities Regulatory Commission and a Hong Kong delegate to the 11th National People's Congress of China. A member of the Advisory Board of the Yale School of Management, and Millstein Center of Corporate Governance and Performance at Yale University and a Senior International Advisor for Foundation Asset Management Sweden AG. Former appointments include: non-executive director of Bank of Communications Co., Ltd from 2006 to 19 August 2010, Baoshan Iron and Steel Co. Limited and Johnson Electric Holdings Limited. A member of the State Bar of California. She was awarded a Silver Bauhinia Star in 2001 and a Gold Bauhinia Star in 2009 by the Hong Kong Government for her public service.

*Mrs Cha has worked in the US and Asia and has extensive regulatory and policy-making experience in the finance and securities sector in Hong Kong and mainland China. Mrs Cha was Vice Chairman of the China Securities Regulatory Commission ('CSRC') from January 2001 to September 2004. She was appointed to the post by the State Council and became the first person outside mainland China to join the Central Government of the People's Republic of China at the vice-ministerial rank. Prior to*

*her post at the CSRC, Mrs Cha worked in the Securities and Futures Commission in Hong Kong from 1991 to 2000, becoming its Deputy Chairman in 1998.*

### **Vincent Cheng, GBS, OBE**

Age 62

Chairman of HSBC Bank (China) Company Limited and, since 21 January 2010, of HSBC Bank (Taiwan) Limited. An executive Director since 2008 and a member of the Corporate Sustainability Committee since 28 May 2010. Joined HSBC in 1978. Appointed a Group General Manager in 1995 and a Group Managing Director in 2005. An independent non-executive director of Great Eagle Holdings Limited and MTR Corporation Limited. Vice chairman of the China Banking Association. A member of the National Committee of the 11th Chinese People's Political Consultative Conference ('CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. Ceased to be chairman and a director of The Hongkong and Shanghai Banking Corporation Limited on 1 February 2010 and of HSBC Global Asset Management (Hong Kong) Limited on 4 February 2010. Ceased to be a director of HSBC Bank Australia Limited and a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority on 1 February 2010 and of HSBC Bank (Vietnam) Limited on 11 November 2010. A non-executive director of Swire Pacific Limited from 2005 to 2008. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2005.

*Mr Cheng is a career banker with extensive international business experience particularly in Asia. Mr Cheng is Vice President of the Hong Kong Institute of Bankers and was chairman of the Process Review Panel for the Securities and Futures Commission and of the Standing Committee on Directorate Salaries and Conditions of Service of the Hong Kong Government. Chairman of the Council of the Chinese University of Hong Kong since October 2009. He was seconded to the Hong Kong Government's Central Policy Unit from 1989 to 1991 serving as an adviser to the Governor of Hong Kong.*

### **Marvin Cheung†, GBS, OBE**

Age 63

Non-executive chairman of the Airport Authority Hong Kong. A non-executive Director since February 2009 and a member of the Group Audit Committee since 1 March 2010. A non-executive director of Hang Seng Bank Limited, HKR International Limited and Hong Kong Exchanges and Clearing Limited. A non-official member of the Executive Council of the Hong Kong Special Administrative Region. Non-executive chairman of the Council of the Hong Kong University of Science and Technology. A director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Hong Kong International Film Festival Society Limited.

Ceased to be a non-executive director of Sun Hung Kai Properties Limited in December 2009. Chairman and Chief Executive Officer of KPMG Hong Kong from 1996 to 2003. A Council Member of the Open University of Hong Kong until June 2009. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2008.

*Dr Cheung brings to the Board a background in international business and financial accounting, particularly in Greater China and the wider Asian economy. He retired from KPMG Hong Kong in 2003 after more than 30 years' distinguished service with the firm. He is a Fellow of the Institute of Chartered Accountants in England and Wales.*

**John Coombe†**

Age 65

Non-executive chairman of Hogg Robinson Group plc. A non-executive Director since 2005 and chairman of the Group Audit Committee since 30 July 2010. A member of the Remuneration Committee and, since 26 February 2010, of the Group Risk Committee. A non-executive director of Home Retail Group plc. A trustee of the Royal Academy Trust. Former appointments include: executive director and Chief Financial Officer of GlaxoSmithKline plc; non-executive director of GUS plc; a member of the Supervisory Board of Siemens AG; chairman of The Hundred Group of Finance Directors, and a member of the Accounting Standards Board.

*Mr Coombe brings to the Board a background in international business, financial accounting and the pharmaceutical industry. As Chief Financial Officer of GlaxoSmithKline he had responsibility for the Group's financial operations globally. He is a Fellow of the Institute of Chartered Accountants in England and Wales.*

**Rona Fairhead†**

Age 49

Chairman, Chief Executive Officer and a director of Financial Times Group Limited. A non-executive Director since 2004. Chairman of the Group Risk Committee since 26 February 2010. A member of the Group Audit Committee, having ceased to be chairman on 30 July 2010. A member of the Nomination Committee. A director of Pearson plc and a non-executive director of The Economist Newspaper Limited. A director of the UK Cabinet Office since 16 December 2010. Ceased to be chairman and a director of Interactive Data Corporation on 30 July 2010. Former appointments include Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc and Finance Director of Pearson plc.

*Mrs Fairhead brings to the Board a background in international industry, publishing, finance and general management. As the former Finance Director of Pearson plc she oversaw the day-to-day running of the finance function and was directly responsible*

*for global financial reporting and control, tax and treasury. She has a Master's in Business Administration from the Harvard Business School.*

**Sandy Flockhart, CBE**

Age 59

Chairman, Europe, Middle East, Africa, Latin America, Commercial Banking and Chairman of HSBC Bank plc with effect from 1 January 2011. An executive Director since 2008. Joined HSBC in 1974. Appointed a Group General Manager in 2002 and a Group Managing Director in 2006. Chairman of HSBC Latin America Holdings (UK) Limited since December 2009. A director of HSBC Bank Australia Limited. A member of the Visa Asia Pacific Senior Advisory Council, Visa Inc. Chairman, Personal and Commercial Banking and Insurance until 31 December 2010. Chairman of HSBC Bank Malaysia Berhad from 2007 to 5 February 2010. Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited from 2007 to 1 February 2010. Ceased to be a director of HSBC Bank (China) Company Limited on 28 February 2010 and of Hang Seng Bank Limited on 31 December 2010. Ceased to be vice chairman and a director of HSBC Bank (Vietnam) Limited on 16 June 2010. President and Group Managing Director Latin America and the Caribbean from 2006 to 2007. Chief Executive Officer, Mexico from 2002 to 2006. Senior Executive Vice-President, Commercial Banking, HSBC Bank USA, N.A. from 1999 to 2002. Managing Director of The Saudi British Bank from 1997 to 1999.

*Mr Flockhart is a career banker, being an emerging markets specialist with over 35 years' experience with HSBC across Latin America, the Middle East, US and Asia. In 2007 he was honoured with a CBE in recognition of his services to British business and charitable services and institutions in Mexico.*

**James Hughes-Hallett†, SBS**

Age 60

Chairman of John Swire & Sons Limited. A non-executive Director since 2005. A member of the Nomination Committee and, since 26 February 2010, of the Group Risk Committee. A member of the Group Audit Committee until 1 March 2010. A non-executive director and former chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A non-executive director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A trustee of the Dulwich Picture Gallery and the Esmée Fairbairn Foundation. A member of The Hong Kong Association and the Governing Board of the Courtauld Institute of Art. Awarded the Silver Bauhinia Star by the Hong Kong Government in 2004.

*Mr Hughes-Hallett brings to the Board a background in financial accounting and the management of a broad range of businesses in a number of international industries,*

*including aviation, insurance, property, shipping, manufacturing and trading in the Far East, UK, US and Australia. He is a Fellow of the Institute of Chartered Accountants in England and Wales.*

**Sam Laidlaw†**

Age 55

Chief Executive Officer of Centrica plc. A non-executive Director since 2008. A member of the Remuneration Committee. Former appointments include: Executive Vice President of Chevron Corporation; non-executive director of Hanson PLC; Chief Executive Officer of Enterprise Oil plc; and President and Chief Operating Officer of Amerada Hess Corporation.

*Mr Laidlaw brings to the Board significant international experience, particularly in the energy sector, having had responsibility for businesses in four continents. He has a Master's in Business Administration from INSEAD. He is a member of the UK Prime Minister's Business Advisory Group and is the Senior Independent Director of the Department for Transport.*

**Rachel Lomax†**

Age 65

Former Deputy Governor, Monetary Stability, at the Bank of England and a member of the Monetary Policy Committee. A non-executive Director since 2008. A member of the Group Audit Committee since March 2009 and of the Group Risk Committee since 26 February 2010. A non-executive director of The Scottish American Investment Company PLC and Reinsurance Group of America Inc., and since 7 July 2010, of Arcus European Infrastructure Fund GP LLP. A non-executive director of BAA Limited since 24 November 2010. A director of the Council of Imperial College, London and a member of the Board of the Royal National Theatre. A member of the Business Advisory Group to the UK Secretary of State for Business since 18 May 2010. Former appointments include: Deputy Governor of the Bank of England from 2003 to 2008; Permanent Secretary at the UK Government Departments for Transport and Work and Pensions and at the Welsh Office from 1996 to 2003; and Vice President and Chief of Staff to the President of the World Bank from 1995 to 1996.

*Ms Lomax brings to the Board business experience in both the public and private sectors and a deep knowledge of the operation of the UK government and the financial system.*

**Iain Mackay**

**Group Finance Director**

Age 49

An executive Director since 3 December 2010. Joined HSBC in 2007. A Director of Hang Seng Bank Limited until 31 December 2010. Chief Financial Officer, Asia Pacific from September 2009 to 3 December 2010 and Chief Financial Officer, North America from 2007 to September 2009. Former

appointments include: Vice President and Chief Financial Officer of GE Consumer Finance and Vice President and Chief Financial Officer of GE Healthcare – Global Diagnostic Imaging.

*Mr Mackay has extensive financial and international experience. He has worked in London, Paris, US and Asia. He is a member of the Institute of Chartered Accountants of Scotland.*

### **Gwyn Morgan†, CM**

Age 65

Non-executive Chairman of SNC-Lavalin Group Inc. A non-executive Director since 2006. A member of the Remuneration Committee. A member of the Board of Trustees of The Fraser Institute and the Manning Centre for Building Democracy. A non-executive director of HSBC Bank Canada from 1996 to 2006. Former appointments include: Founding President, Chief Executive Officer and Vice Chairman of EnCana Corporation; director of Alcan Inc.; and director of Lafarge North America, Inc.

*Mr Morgan brings to the Board a background in technical, operational, financial and management positions and has led large international companies in the energy and engineering sectors. He has been recognised as Canada's most respected Chief Executive Officer in a national poll of Chief Executives. He is currently a business columnist for Canada's largest national newspaper. He was appointed a Member of the Order of Canada on 30 December 2010 for his contributions as a business and community leader and as a philanthropist.*

### **Narayana Murthy†, CBE**

Age 64

Chairman and Chief Mentor and former Chief Executive Officer of Infosys Technologies Limited. A non-executive Director since 2008. Chairman of the Corporate Sustainability Committee since 28 May 2010. A director of the United Nations Foundation. Ceased to be a director of Unilever plc on 12 May 2010. Former appointments include: a non-executive director of DBS Group Holdings Limited, DBS Bank Limited and New Delhi Television Limited.

*Mr Murthy brings to the Board experience in information technology, corporate governance and education, particularly in India. He founded Infosys Technologies Limited in India in 1981 and was its Chief Executive Officer for 21 years. Under his leadership, Infosys established a global footprint and was listed on NASDAQ in 1999. During his career he has worked in France and India.*

### **Sir Simon Robertson† Deputy Chairman, senior independent non-executive Director**

Age 69

Non-executive chairman of Rolls-Royce Group plc and the founder member of Simon Robertson Associates LLP. A non-executive

Director since 2006. Senior independent non-executive Director since 2007 and Deputy Chairman since 1 December 2010. A member of the Nomination Committee. A non-executive director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and Royal Opera House Covent Garden Limited. A trustee of the Eden Project Trust and of the Royal Opera House Endowment Fund. Former appointments include Managing Director of Goldman Sachs International and chairman of Dresdner Kleinwort Benson.

*Sir Simon brings to the Board a background in international corporate advisory with a wealth of experience in mergers and acquisitions, merchant banking, investment banking and financial markets. During his career he has worked in France, Germany, the UK and the US. In June 2010 he was honoured with a knighthood in recognition of his services to business.*

### **John Thornton†**

Age 57

A non-executive Director since 2008. Chairman of the Remuneration Committee since 28 May 2010. Non-executive chairman and a director of HSBC North America Holdings Inc since 2008. Professor and director of the Global Leadership Program at the Tsinghua University School of Economics and Management. Chairman of the Brookings Institution Board of Trustees. A non-executive director of Ford Motor Company, News Corporation, Inc. and China Unicom (Hong Kong) Limited. A director of National Committee on United States-China Relations and a Trustee of Asia Society, China Institute, The China Foreign Affairs University, the Palm Beach Civic Association and the United World College of East Africa Trust. A member of the Council on Foreign Relations, the China Securities Regulatory Commission International Advisory Committee and China Reform Forum International Advisory Committee. Former appointments include: a non-executive director of Industrial and Commercial Bank of China Limited from 2005 to 2008; Intel Corporation, Inc. from 2003 to 18 May 2010; and President of the Goldman Sachs Group, Inc. from 1999 to 2003.

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

### **Sir Brian Williamson†, CBE**

Age 66

A non-executive Director since 2002. A member of the Nomination Committee, having ceased to be its chairman on 26 February 2010. A director of NYSE Euronext. Chairman of Electra Private Equity plc until 24 May 2010. Former appointments

include: chairman of London International Financial Futures and Options Exchange and Gerrard Group plc; a director of Climate Exchange plc; and a non-executive director of Resolution plc, the Financial Services Authority and the Court of The Bank of Ireland.

*Sir Brian brings to the Board extensive experience in money and bond markets, insurance, private equity, futures, options and commodities trading internationally. He established the London International Financial Futures and Options Exchange in the 1980s and led the Exchange's development of its electronic trading platform in the mid-1990s. He was the first chairman of Resolution plc, established to consolidate life assurance business in the UK. He is a member of the Guild for International Bankers.*

† Independent non-executive Director

## Secretary

### **Ralph Barber**

Age 60


Group Company Secretary since 1986. Appointed a Group General Manager in 2006. Joined HSBC in 1980. Company Secretary of HSBC Holdings plc since 1990. Chairman of the Disclosure Committee. A member of the Listing Authority Advisory Committee of the Financial Services Authority and of the Primary Markets Group of the London Stock Exchange. Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992 and Company Secretary of HSBC Bank plc from 1994 to 1996.

## Adviser to the Board

### **David Shaw**

Age 64

An Adviser to the Board since 1998. Solicitor. A former partner in Norton Rose. A director of HSBC Bank Bermuda Limited, HSBC Private Banking Holdings (Suisse) SA and HSBC Private Bank (Suisse) SA. An independent non-executive director of Kowloon Development Company Limited and Shui On Land Limited.

 Photographs of the Board of Directors are shown on pages 8-9

# Summary Financial Statement

## Summary Directors' Report

### Results for 2010

HSBC reported profit before tax of US\$19,037 million. Profit attributable to shareholders of HSBC Holdings transferred to retained earnings was US\$13,159 million, a 9.5 per cent return on average total shareholders' equity.

### Principal activities and business review

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180 billion at 31 December 2010. We are headquartered in London.

As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength.

HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

Our products and services are delivered through two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets, and Global Private Banking. Personal Financial Services incorporates the Group's consumer finance businesses, the largest of which is HSBC Finance Corporation.

Taken together, our five largest customers do not account for more than 1 per cent of our income.

We have contractual and other arrangements with numerous third parties in support of our business activities. None of the arrangements is individually considered to be essential to the business of the Group.

There were no significant acquisitions during the year.

### Corporate Governance Report

The information set out on pages 23 to 39 and information incorporated by reference, is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 183 to 234 of the *Annual Report and Accounts 2010*.

### Board of Directors

The purpose of HSBC's management structures, headed by the Board of Directors of HSBC Holdings (the 'Board') and led by the Group Chairman, is to deliver sustainable value to our shareholders. The Board sets the strategy for the Group and approves the risk appetite and capital and operating plans presented by management for the achievement of the strategic objectives it has set. This ensures the efficient application of our resources for the achievement of these objectives. Implementation of the strategy set by the Board is delegated to the Group Management Board ('GMB') led by the Group Chief Executive.

### Attendance record

Number of meetings held	Board 9	Group Audit Committee 6	Group Risk Committee <sup>1</sup> 4	Nomination Committee 3	Remuneration Committee 9	Corporate Sustainability Committee 5
S A Catz	8	–	–	–	–	–
V H C Cheng	7	–	–	–	–	1 <sup>2</sup>
M K T Cheung	8	4 <sup>3</sup>	–	–	–	–
J D Coombe	9	6	4	–	9	–
J L Durán <sup>4</sup>	2	–	–	–	–	–
R A Fairhead	8	5	3	2	–	–
D J Flint	9	–	–	– <sup>5</sup>	–	–
A A Flockhart	9	–	–	–	–	–
W K L Fung <sup>6</sup>	4	–	–	–	–	3
M F Geoghegan	8	–	–	–	–	–
Lord Green <sup>7</sup>	8	–	–	2	–	–
ST Gulliver	9	–	–	–	–	–
J W J Hughes-Hallett	8	2 <sup>8</sup>	2	3	–	–
W S H Laidlaw	9	–	–	–	9	–
J R Lomax	8	6	4	–	–	–
I J Mackay <sup>9</sup>	–	–	–	–	–	–
Sir Mark Moody-Stuart <sup>10</sup>	4	–	–	–	4	2
G Morgan	7	–	–	–	6	–
N R N Murthy	7	–	–	–	–	5
Sir Simon Robertson	9	–	–	3	–	–
J L Thornton	8	–	–	–	9	–
Sir Brian Williamson	8	–	–	3	–	–

1 All members appointed on 26 February 2010 when the Committee was established. All members eligible to attend four Committee Meetings.

2 Appointed a member on 28 May 2010 – eligible to attend two Committee Meetings.

3 Appointed a member on 1 March 2010 – eligible to attend four Committee Meetings.

4 Retired as a Director on 28 May 2010 – eligible to attend four Board Meetings.

5 Appointed a member on 3 December 2010 – not eligible to attend any Committee Meetings.

6 Retired as a Director on 28 May 2010 – eligible to attend four Board Meetings and three Committee Meetings.

7 Appointed a member of the Nomination Committee on 26 February 2010 and retired as a Director on 3 December 2010 – eligible to attend eight Board Meetings and two Committee Meetings.

8 Ceased to be a member on 1 March 2010 – eligible to attend two Committee Meetings.

9 Appointed a Director on 3 December 2010 – eligible to attend one Board Meeting.

10 Retired as a Director on 28 May 2010 – eligible to attend four Board Meetings, four Remuneration Committee Meetings and three Corporate Sustainability Committee Meetings.

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

The Directors who served during the year were S A Catz, V H C Cheng, M K T Cheung, J D Coombe, J L Durán (retired 28 May 2010), R A Fairhead, D J Flint, A A Flockhart, W K L Fung (retired 28 May 2010), M F Geoghegan (retired 31 December 2010), Lord Green (retired 3 December 2010), S T Gulliver, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, I J Mackay (appointed 3 December 2010), Sir Mark Moody-Stuart (retired 28 May 2010), G Morgan, N R N Murthy, Sir Simon Robertson, J L Thornton and Sir Brian Williamson.

Nine Board meetings were held during 2010. The table on page 26 gives details of each Director's attendance at meetings of the Board, Group Audit Committee, Group Risk Committee, Nomination Committee, Remuneration Committee and Corporate Sustainability Committee held whilst he or she was a Director or member during 2010. Two meetings of the Board and of the Remuneration Committee were held at short notice. Not all Directors who were entitled to attend were able to attend these meetings.

Eight meetings of other committees of the Board appointed to discharge specific business were held during 2010. These meetings are not shown in the table on page 26.

### Group Chairman and Group Chief Executive

The roles of Group Chairman and Group Chief Executive are separate and held by experienced full-time Directors. Details of the roles and responsibilities of the Group Chairman and the Group Chief Executive are found at: [www.hsbc.com/investor-relations/governance](http://www.hsbc.com/investor-relations/governance).

D J Flint succeeded S K Green (who on 22 November 2010 became Lord Green of Hurstpierpoint and is referred to in this document as Lord Green) as Group Chairman on 3 December 2010. S T Gulliver succeeded M F Geoghegan as Group Chief Executive on 1 January 2011.

The appointment of D J Flint, made by a unanimous decision of the Board, was the culmination of a comprehensive succession process begun in the first half of the year under the leadership of the senior independent non-executive Director. When considering the choice of Group Chairman, the Nomination Committee, assisted by an external consultant, took a number of factors into account, including the need to contribute to the unprecedented regulatory and public policy debate on the future shape of the banking industry and, in particular, systemically important financial institutions operating globally with a universal banking model; the full-time demands of this engagement; the personal standing to represent HSBC at the highest levels; a deep understanding and experience of international financial services; and extensive experience of Board governance and stakeholder engagement. The Nomination Committee came to the unanimous conclusion that D J Flint was the best person for the position, meeting all the core criteria and having led our regulatory engagement at Board level through 2010.

S T Gulliver has worked for us throughout his career serving across Asia, in Europe and in the Middle East. The Board considers S T Gulliver ideally qualified for the role of Group Chief Executive.

He has built and managed a global business in over 65 countries and has a deep knowledge of, and strong reputation in, Asia where he worked for over 20 years. S T Gulliver has been responsible for managing complex risks for many years and shepherded and enhanced the Group's liquidity through the economic crisis. He also has had responsibility for all of HSBC's operations in the UK, Europe and the Middle East. As Group Chief Executive, S T Gulliver's principal office is located in Hong Kong.

Sir Simon Robertson became Deputy Chairman with effect from 1 December 2010. As Deputy Chairman his role is to deputise for the Group Chairman at meetings of the Board or shareholders and to support the Group Chairman in his role.

The Board believes strongly that these appointments, which were made by unanimous decision, are in HSBC's best interests. There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for running HSBC's business. The Group Chairman's responsibilities include, in addition to the leadership of the Board and ensuring its effectiveness, the development of relationships with governments, regulators and investors; leading the Group's interactions on matters of public policy and regulatory reform with regard to the banking and financial services industry; maintaining corporate reputation and character; and performance management of the Group Chief Executive.

The Group Chief Executive has responsibility for developing, and delivering performance against, business plans. He is responsible for developing Group strategy in agreement with the Group Chairman and for recommendation to the Board. As chairman of the Group Management Board, the Group Chief Executive is responsible for driving performance within strategic goals and commercial objectives agreed by the Board.

### Board balance and independence of Directors

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

The Nomination Committee regularly reviews the structure, size and composition 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.

Sir Simon Robertson's role as the senior independent non-executive Director is to act as an intermediary for other non-executive Directors when necessary, to lead the non-executive Directors in the oversight of the Group Chairman and to ensure there is a clear division of responsibility between the Group Chairman and Group Chief Executive.

The Board considers all of the non-executive Directors to be independent in character and judgement. The Board has determined S A Catz, L M L Cha, M K T Cheung, J D Coombe, R A Fairhead, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, G Morgan, N R N Murthy, Sir Simon Robertson, J L Thornton and Sir Brian Williamson to be independent. When determining independence the Board considers that calculation of the length of service of a non-executive Director begins on the date of his or her first election by shareholders as a Director of HSBC Holdings. Given the complexity and geographical spread of our business, the experience of previous service on a subsidiary company board can be a considerable benefit and does not detract from a Director's independence. In reaching its determination of each non-executive Director's independence the Board has concluded that there are no relationships or circumstances which are likely to affect a Director's judgement and any relationships or circumstances which could appear to do so were considered not to be material.

## Information, induction and ongoing development

Full, formal and tailored induction programmes, with particular emphasis on the systems of risk management and internal controls, are arranged by the Group Company Secretary for newly appointed Directors. The programmes consist of a series of meetings with other Directors and senior executives to enable new Directors to receive information and familiarise themselves with our strategy, risk appetite, operations and internal controls. As part of the induction process the Group Company Secretary will coordinate the production of a development programme based on the individual Director's needs. Directors receive comprehensive guidance on the duties and liabilities of a Director of HSBC Holdings before appointment and opportunities to update and develop their skills and knowledge, through externally run seminars and briefings by senior executives, throughout their directorship.

Induction programmes are also arranged for newly appointed members of committees and appropriate training is provided on an ongoing basis.

A personalised approach to training and development of Directors is applied. Development plans and records of development activities are maintained by the Group Company Secretary for annual review by the Group Chairman with the Director concerned. The Group Company Secretary coordinates the delivery of any training required. Focused in-house development programmes to enhance business awareness are arranged in conjunction with scheduled Board Meetings. Directors have access online to internal training and development resources.

## Appointment, retirement and re-election of Directors

On the recommendation of the Nomination Committee and in compliance with provision B.7.1 of the UK Corporate Governance Code, which replaces the Combined Code on Corporate Governance for financial years beginning on or after 29 June 2010, the Board has decided that all of the Directors should be subject to annual re-election by shareholders. Accordingly, all of the Directors will retire at the forthcoming Annual General Meeting and with the exception of V H C Cheng, who is to retire, offer themselves for re-election.

Brief biographical particulars of all Directors are given on pages 23 to 25.

## Corporate governance codes

We are committed to high standards of corporate governance. We have complied throughout the year with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council, save for code provision A.2.2 as D J Flint, who had previously served as Chief Financial Officer, Executive Director, Risk and Regulation, did not meet the independence criteria of the Combined Code on Corporate Governance when he was appointed Group Chairman on 3 December 2010. The Board's explanation of its decision to appoint D J Flint is set out on page 27. We have complied throughout the year with all applicable code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Combined Code on Corporate Governance is available at [www.frc.org.uk](http://www.frc.org.uk) and the Code on Corporate Governance Practices is available at [www.hkex.com.hk](http://www.hkex.com.hk).

The Board has adopted a code of conduct for transactions in HSBC Group securities by Directors. The code of conduct complies with The Model Code in the Listing Rules of the FSA and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code. The waivers granted by The Stock Exchange of Hong Kong Limited primarily take into account accepted practices in the UK, particularly in respect of employee share plans. Following a specific enquiry, each Director has confirmed he or she has complied with the code of conduct for transactions in HSBC Group securities throughout the year.

## Board committees

The Board has appointed a number of committees.

The **Group Management Board** ('GMB'), an executive management committee, meets frequently and operates as a general management committee under the direct authority of the Board. The objective of the GMB is to maintain a reporting and control structure whereby all of our line operations are accountable to individual members of the GMB who report to the Group Chief Executive who in turn reports to the Group Chairman. The Board has set objectives and measures for the GMB. These align senior executives' objectives and measures with the strategy and operating plans throughout HSBC.

The members of the GMB are ST Gulliver (Chairman), A A Flockhart and I J Mackay, who are executive Directors, and A Almeida, E Alonso, S Assaf, N S K Booker, A M Keir, M M Moses, B Robertson, P A Thurston and P T S Wong, all of whom are Group Managing Directors.

The GMB exercises the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of HSBC Holdings.

The **Group Audit Committee** ('GAC'), whose members are all independent non-executive Directors, is responsible for advising the Board on the effectiveness of our systems of internal controls and compliance in relation to financial matters and on meeting financial reporting obligations. The GAC also has responsibilities in relation to risk governance and oversight and internal controls.

The members of the Committee throughout 2010 were J D Coombe (Chairman), R A Fairhead and J R Lomax. On 1 March 2010, M K T Cheung was appointed a member of the Committee in succession to J W J Hughes-Hallett. On 30 July 2010, J D Coombe was appointed chairman of the Committee in succession to R A Fairhead who remains a member of the Committee.

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

Historically the GAC has provided non-executive oversight of risk as well as financial reporting. The Group Risk Committee ('GRC') was established in February 2010 to focus on risk governance and to provide an increasingly forward-looking view of risks and their mitigation. The GAC currently has certain responsibilities in relation to risk governance and oversight of internal controls in order to comply with the Hong Kong and UK Corporate Governance Codes.

There is therefore currently a degree of overlap between the responsibilities of the GAC and the GRC in relation to risk matters. For example, a review of the effectiveness of our systems of risk management and internal controls was undertaken by the GAC and by the GRC. Each of the committees is reviewing its terms of reference with the aim of minimising the overlap.

The Committee held six meetings in 2010 – see page 26 for details of Directors' attendance at these meetings. Following each meeting the Committee reports to the Board on its activities.

The Committee has recommended to the Board that KPMG Audit Plc be reappointed auditor at the forthcoming Annual General Meeting.

An analysis of the remuneration paid in respect of audit and non-audit services provided by KPMG Audit Plc and its affiliates ('KPMG') for each of the past three years is disclosed in Note 8 on page 285 of the Notes on the Financial Statements in the *Annual Report and Accounts 2010*.

Further information about the Group Audit Committee is given on pages 195 to 197 of the *Annual Report and Accounts 2010*.

The **Group Risk Committee** ('GRC'), whose members are all independent non-executive Directors, is responsible for advising the Board on material risk matters and providing non-executive oversight of risk. The Committee was established in February 2010 following publication of the final recommendations of Sir David Walker's *Review of Corporate Governance in UK Banks and other Financial Industry Entities*, to focus on risk governance and to provide an increasingly forward-looking view of risks and their mitigation.

Historically the GAC has provided non-executive oversight of risk as well as financial reporting. There is currently a degree of overlap between responsibilities of the GAC and the GRC in relation to risk governance and oversight matters and internal controls. Each committee is reviewing its terms of reference with the aim of minimising the overlap.

The members of the GRC are R A Fairhead (Chairman), J D Coombe, J W J Hughes-Hallett and J R Lomax.

All of HSBC's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks. The Board, advised by the Committee, ensures that the Group has a strong risk governance culture which shapes the Group's risk strategy. The Board and the Committee ensure that a strong risk management framework is maintained, via the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

The Committee held four meetings in 2010 – see page 26 for details of Directors' attendance. Following each meeting the Committee reports to the Board on its activities.

Further information about the Group Risk Committee is given on pages 197 to 201 of the *Annual Report and Accounts 2010*.

The role of the **Remuneration Committee** and its membership are set out in the Summary Directors' Remuneration Report on page 31.

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

The members of the Nomination Committee throughout 2010 were Sir Brian Williamson, R A Fairhead, Sir Simon Robertson and J W J Hughes-Hallett, all independent non-executive Directors. Lord Green succeeded Sir Brian Williamson as chairman of the Nomination Committee on 26 February 2010 and served until his retirement on 3 December 2010 when he was succeeded by D J Flint, upon his appointment as Group Chairman. Lord Green did not chair any meeting of the Nomination Committee when it was dealing with the appointment of the successor to the chairmanship. The selection process for Lord Green's successor as Group Chairman, was led by the senior independent non-executive Director.

The appointments of D J Flint as Group Chairman, ST Gulliver as Group Chief Executive and I J Mackay as an executive Director were made on the advice and recommendation of the Nomination Committee. An external consultancy was used in connection with the appointments.

The Committee held three meetings in 2010 – see page 26 for details of Directors' attendance at these meetings. Following each meeting the Committee reports to the Board on its activities.

Further information about the Nomination Committee is given on pages 201 to 202 of the *Annual Report and Accounts 2010*.

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

The members of the Committee during 2010 were N R N Murthy, a non-executive Director (appointed Chairman on 28 May 2010), V H C Cheng, an executive Director (appointed 28 May 2010), W K L Fung (retired 28 May 2010), Sir Mark Moody-Stuart (retired 28 May 2010) and G V I Davis, Lord May and Dame Mary Marsh, who are non-director members of the Committee. The Corporate

Sustainability Committee held five meetings in 2010. The table on page 26 gives details of Directors' attendance at these meetings. Following each meeting, the Committee reports to the Board on its activities.

Further information about Corporate Sustainability is given on pages 212 to 213 of the *Annual Report and Accounts 2010*.

### Community investment

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

Our focus is on education and the environment because we believe they are essential building blocks for the development of communities and are prerequisites for economic growth. Global education programmes such as Future First, JA More Than Money™ and Eco-Schools focus on helping disadvantaged children, promoting financial literacy and environmental education and understanding. Our flagship environmental programme is the HSBC Climate Partnership, a US\$100 million commitment to working with The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF on tackling climate change.

In 2010, we donated a total of US\$108 million to community investment projects (2009: US\$100 million).

### Dividends for 2010

First, second and third interim dividends for 2010, each of US\$0.08 per ordinary share, were paid on 7 July 2010, 6 October 2010 and 12 January 2011 respectively. On 28 February 2011, the Directors declared a fourth interim dividend for 2010 of US\$0.12 per ordinary share in lieu of a final dividend, which will be payable on 5 May 2011 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 27 April 2011, with a scrip dividend alternative. As the fourth interim dividend for 2010 was declared after 31 December 2010 it has not been included in the balance sheet of HSBC as a debt. The reserves available for distribution at 31 December 2010 were US\$36,013 million.

A quarterly dividend of US\$15.50 per 6.20% non-cumulative US Dollar Preference Share, Series A ('Series A Dollar Preference Share'), (equivalent to a dividend of US\$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A Dollar Preference Share), was paid on 15 March, 15 June, 15 September and 15 December 2010.

### Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank, HSBC Financial Products (France) and The Hongkong and Shanghai Banking Corporation, which are members of a European Economic Area exchange, neither we nor any of our subsidiaries has purchased, sold or redeemed any of our listed securities during the year ended 31 December 2010.

### Auditor's Report

The auditor's report on the full accounts for the year ended 31 December 2010 was unqualified and did not include a statement under section 498(2) (inadequate accounting records or returns or accounts not agreeing with records or returns) or section 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The statement under section 496 (whether directors' report is consistent with the accounts) was unqualified.

# Summary Directors' Remuneration Report

The principal purpose of HSBC's remuneration strategy is to support and drive sustainable performance over the long-term. Remuneration should reward success towards this end, but it must also not reward failure and it must be properly aligned with risk which remains on the balance sheet.

HSBC strives to achieve this through a variety of ways which are detailed under 'Overall principles' on page 31. These include taking a rounded view of financial and non-financial performance in determining reward levels, considering affordability (including cost and quantity of capital and liquidity considerations), market competitiveness, delivering awards with high levels of deferral and making all such deferred awards subject to clawback. Such clawback is applied at the sole discretion of the Remuneration Committee ('the Committee').

In our view, these elements help to reinforce and reward the delivery of sustainable performance.

### 2010 performance Key achievements

The annual financial objectives that we set for ourselves for 2010 were achieved, although in some areas they were lower than the established long term targets. In the Group's 2010 performance, particular note was made of the following:

- good growth in profit before tax on both an underlying and a reported basis compared with 2009 and ahead of expectations at the start of 2010. This was primarily driven by lower loan impairment charges and other credit risk provisions with all regions and customer groups contributing;
- strong growth was achieved in emerging markets with loans and advances to customers and revenue increasing in key markets;
- our capital ratios were above the target range, in part from the contribution of profit to capital but also from our ability to raise capital, as shown in the successful hybrid capital securities issue in the first half of the year;
- we maintained a highly liquid balance sheet, with a ratio of customer advances to customer accounts of 78.1 per cent;
- we increased dividends for our shareholders, reflecting the profit-generating capability of the Group;
- however, return on average shareholders' equity of 9.5 per cent was below our target range; and
- revenue declined and costs grew, resulting in an increase in the cost efficiency ratio from 52.0 per cent to 55.2 per cent. The Group is working on bringing the ratio back to target levels while meeting the need to invest for future growth.

Key non-financial achievements of the Group in 2010, which reflect the objectives set for senior management, are summarised below:

- process objectives focused on efficiency and qualitative measures which affect financial performance and mitigate risk. The target we set for operational losses as a percentage of revenue was met;
- progress in meeting customer recommendation and brand recognition targets was made in a challenging environment for retail and commercial banking. Brand health targets for Personal Financial Services and Business Banking were met. Customer recommendation targets were met for the latter but not for Personal Financial Services; and
- regarding the Group's employees, our 2010 employee engagement score was below target and was less than our 2009 score. However, the 2010 score exceeded the global average and the global financial sector norm scores for employee engagement in the year. The target for the ratio of revenue to staff costs was also met.

In determining remuneration levels for 2010 the Committee, applying HSBC's remuneration strategy and policy, remained mindful of the interests of the many stakeholders and the broader external context. This included taking into account the pay and employment conditions of our employees compared to our Directors and senior executives.

### Management of risk

The integration of risk management with reward commenced in 2008 when our Group Risk function became involved in the approval of relevant incentive plans. Subsequently, the concept of imputing the cost of capital in the determination of bonus funding was expanded across HSBC, starting with Global Banking and Markets, and it now applies throughout the Group.

Since 2009, the Group Chief Risk Officer has provided advice to the Committee on the implications of the remuneration policy on risk and risk management. As outlined in 'Overall principles' on page 31, risk mitigation objectives are included in objectives.

From 2010, we have used a risk appetite framework which describes the quantum and types of risk that we are prepared to take in executing our strategy. It shapes our integrated approach to business, risk and capital management and supports us in achieving our return on equity objectives. The risk appetite framework is agreed by the HSBC Holdings Board and cascaded across businesses and geographies. It provides an important input into the Committee's deliberations with regard to remuneration. In addition, individual performance is also reviewed against key risk appetite targets for credit, market, operational and information and security risks to ensure that proposed individual remuneration is appropriate against these aspects.

In February 2010, the Group Risk Committee was established, which advises the Board on risk appetite and also on aligning reward structures with risk appetite. The Group Risk Committee receives information on risk-related aspects of reward structures to be proposed by the Committee. The Group Chief Risk Officer regularly reports to, and attends meetings of, the Group Risk Committee.

### Regulation

2010 has seen further significant change to the regulatory environment. Regrettably, there is still a wide divergence in how regulations operate globally and this presents significant challenges to HSBC, which operates in 87 countries and territories worldwide. In order to deliver long-term sustainable performance, it is imperative we have market competitive remuneration in order to attract, motivate and retain talented and committed employees.

We work to ensure our remuneration policies are aligned with both new regulatory practices and the interests of shareholders and confirm that HSBC is fully compliant with the Financial Stability Board and the Financial Services Authority ('FSA') guidance and rules on remuneration.

### Senior management changes

In September 2010, we announced that our Group Chairman, Lord Green, would retire from the Group on 3 December 2010 and that the Group Chief Executive and Chairman of The Hongkong and Shanghai Banking Corporation, M F Geoghegan, would step down as Group Chief Executive with effect from 31 December 2010 and provide advisory support to the Group until his retirement on 31 March 2011. M F Geoghegan will then act as an external consultant up to 30 June 2011. Succession to these positions affecting the executive Directors is set out below.

D J Flint was appointed Group Chairman with effect from 3 December 2010 and continues to be based in London.



ST Gulliver was appointed Group Chief Executive and Chairman of The Hongkong and Shanghai Banking Corporation with effect from 1 January 2011. In keeping with the policy established in September 2009, his principal office is located in Hong Kong.

A A Flockhart was appointed Chairman, Europe, Middle East, Africa, Latin America and Commercial Banking and Chairman of HSBC Bank plc with effect from 1 January 2011. He has relocated from Hong Kong to London to take up this remit.

I J Mackay was appointed an executive Director and the Group Finance Director with effect from 3 December 2010. He has relocated from Hong Kong to London to take up this remit.

**2011 remuneration activities**

As announced in 2010, the Committee is considering how HSBC can continue to improve the alignment between shareholders and senior management with regard to incentivising long-term sustainable performance. The Committee is currently in the process of consulting with major shareholders on this subject. Any material changes to our approach which result from this consultation will be explained to shareholders in the Chairman's letter accompanying the Notice of the Company's 2011 Annual General Meeting.

**Remuneration Committee – members and advisers**

The Committee meets regularly to consider human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the Committee is responsible for approving remuneration policy and, in doing so, takes into account the pay and conditions across our Group.

**Overall principles**

Our global reward strategy provides a framework for the Committee to carry out its responsibilities during the year.

This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on our risk profile. No Directors are involved in deciding their own remuneration.

The members of the Committee during 2010 were J D Coombe, W S H Laidlaw, G Morgan and J L Thornton. Sir Mark Moody-Stuart retired as a Director of HSBC Holdings and ceased to be a member and chairman of the Committee on 28 May 2010. J L Thornton was appointed chairman on 28 May 2010.

There were nine meetings of the Committee during 2010. Following each meeting, the Committee reports to the Board on its activities. The terms of reference of the Committee are available at [www.hsbc.com/boardcommittees](http://www.hsbc.com/boardcommittees).

The Committee received independent advice on executive remuneration issues from Deloitte LLP and remuneration data from Towers Watson during 2010. Each of these firms also provided other consulting services to various parts of the Group. Other consultants are used from time to time to advise on specific issues. Going forward, the Committee has agreed to use advisers only as and when required and that these would be separate from the Company's advisers. During the year, the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Human Resources, A Almeida, the Head of Group Performance and Reward, T Roberts and B Robertson, then the Group Chief Risk Officer.

HSBC reward strategy	How achieved
A rounded approach to measuring performance	<ul style="list-style-type: none"> <li>We assess performance with reference to clear and relevant objectives set within a holistic balanced scorecard framework. Under this framework, objectives are set under four categories – financial, process (including risk mitigation), customer and people. Significant importance is given to the achievement of efficiency and risk objectives as well as financial objectives. Objectives relating to customer development and the productivity of our human capital are key to sustained financial performance and the development of the Group over the short and medium term.</li> </ul>
A focus on total remuneration with variable pay differentiated by performance	<ul style="list-style-type: none"> <li>Reward is delivered through a combination of fixed and variable pay (salary, bonus, other long-term incentives). The variable pay element is differentiated by performance over both the short and long term. The performance-related elements of pay comprise a material proportion of the total remuneration package for executive Directors, whilst maintaining an appropriate balance between fixed and variable elements. Remuneration is structured to provide an opportunity for market top quartile total remuneration for higher levels of market referenced performance.</li> </ul>
Aligning individual rewards with Group performance and shareholders	<ul style="list-style-type: none"> <li>A significant proportion of variable pay is deferred into, predominantly, awards of HSBC Holdings Restricted Shares to align recipients to the future performance of the Group and to retain key talent. For Code Staff (as defined under UK Financial Services Authority (FSA) rules) 50 per cent of deferred variable pay is delivered in the form of deferred cash.</li> <li>Executive Directors and other senior executives are subject to share ownership guidelines.</li> </ul>
Competitive and cost-effective packages to attract and retain staff	<ul style="list-style-type: none"> <li>A total remuneration package (salary, bonus, long-term incentives and other benefits) which is competitive in relation to comparable organisations in each of the markets in which we operate.</li> </ul>
Effective management of risk	<ul style="list-style-type: none"> <li>Discretion is used in order to assess the extent to which performance has been achieved, rather than applying a formulaic approach which, by its nature, may encourage inappropriate risk taking.</li> <li>Performance is assessed taking risk into account using a combination of quantitative and qualitative measures as informed by the risk appetite framework.</li> <li>Affordability is assessed (including the cost and quantity of capital and liquidity considerations).</li> <li>All Restricted Share awards made from 2010 onwards are, prior to vesting, subject to clawback as are deferred cash awards made from 2011 onwards.</li> </ul>
Stakeholder interest	<ul style="list-style-type: none"> <li>Consideration of shareholder interests together with consideration of the wider environment and societal aspects.</li> <li>Consideration of the pay and employment conditions of the Group's employees compared to its Directors and senior executives.</li> </ul>

**Executive Directors' remuneration**

The table below sets out our policy relating to, and the purpose of, each element of the remuneration package for executive Directors.

Element	Delivery	Policy	Purpose	Timing
<b>Fixed</b> Base salary	<ul style="list-style-type: none"> <li>Cash</li> <li>Monthly</li> <li>Pensionable</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed annually</li> </ul>	<ul style="list-style-type: none"> <li>Reflects the market competitive rate for the role and relative responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Paid during the year</li> </ul>
<b>Variable</b> Annual bonus	<ul style="list-style-type: none"> <li>Comprises a non-deferred and a deferred element. See below</li> </ul>	<ul style="list-style-type: none"> <li>Total annual bonus award (including cash and deferred elements) of up to four times salary</li> <li>Fully discretionary</li> </ul>	<ul style="list-style-type: none"> <li>Reflects the extent to which the individual and the Group's annual objectives have been met under the balanced scorecard approach, risk appetite framework, our absolute and relative performance to our peers and competitive market practice</li> </ul>	<ul style="list-style-type: none"> <li>Awarded in the following financial year</li> </ul>
Annual bonus (non-deferred)	<ul style="list-style-type: none"> <li>Either cash or awards of Restricted Shares under the HSBC Share Plan</li> <li>Non-pensionable</li> </ul>	<ul style="list-style-type: none"> <li>At least 50% of non-deferred variable remuneration is awarded in Restricted Shares in line with FSA regulations</li> <li>Such share-based variable remuneration is subject to a six month retention period</li> </ul>		<ul style="list-style-type: none"> <li>Awarded in the following financial year</li> </ul>
Annual bonus (deferred)	<ul style="list-style-type: none"> <li>Either deferred cash or awards of Restricted Shares under the HSBC Share Plan</li> <li>Non-pensionable</li> </ul>	<ul style="list-style-type: none"> <li>40% - 60% of variable remuneration is deferred over a period of three years, in line with FSA regulations</li> <li>At least 50% of deferred variable remuneration is awarded in Restricted Shares in line with FSA regulations</li> <li>Such share-based variable remuneration is subject to a six month retention period</li> <li>33% vest on each of the first and second anniversaries of an award, the balance (34%) vesting on third anniversary<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>See above</li> <li>Also contributes to retention and encourages alignment with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Awarded in the following financial year</li> </ul>
Performance Shares	<ul style="list-style-type: none"> <li>Performance Shares awarded under the HSBC Share Plan</li> <li>Non-pensionable</li> </ul>	<ul style="list-style-type: none"> <li>Face value at grant of up to a maximum of seven times salary</li> <li>Vesting of awards based on three independent performance measures (relative total shareholder return ('TSR') 40%, economic profit 40% and growth in earnings per share ('EPS') 20%) and an over-riding 'sustained improvement' judgement by the Committee</li> <li>Performance conditions are measured over a three-year period</li> <li>Performance targets are reviewed annually to ensure that they remain appropriate and challenging, and to consider whether they should be recalibrated for future awards</li> </ul>	<ul style="list-style-type: none"> <li>To reflect our relative and absolute performance over the long term. This takes account of an external measure of value creation, a measure of the extent to which the return on capital invested in HSBC is in excess of a benchmark return and a direct measure of the profits generated for shareholders</li> <li>Rewards the creation of sustained growth in shareholder value and encourages alignment with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Normally awarded in the following financial year</li> </ul>
<b>Benefits</b> Pension	<ul style="list-style-type: none"> <li>Deferred cash or cash allowance</li> </ul>	<ul style="list-style-type: none"> <li>Employer contributions based on percentage of salary</li> </ul>	<ul style="list-style-type: none"> <li>Provides market competitive post-retirement benefits</li> </ul>	<ul style="list-style-type: none"> <li>Paid or accrued during the year</li> </ul>
Other benefits	<ul style="list-style-type: none"> <li>Benefits in kind or cash allowance</li> <li>Non-pensionable</li> </ul>	<ul style="list-style-type: none"> <li>Benefits include provision of medical and other insurance, accountancy advice and travel assistance</li> </ul>	<ul style="list-style-type: none"> <li>Provides market competitive benefits</li> </ul>	<ul style="list-style-type: none"> <li>Received during the year</li> </ul>

<sup>1</sup> By exception, V H C Cheng's 2010 award has a vesting date three years from the date of award.

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

The positioning of total remuneration (salary, bonus and the expected value of long-term incentives) for the executive Directors depends on

the performance of the Group and individual performance assessed against a combination of financial and non-financial objectives within an annual balanced scorecard. The annual objectives in themselves are derived from medium-term strategic plans.

The above approach applies to all executive Directors with the exception of the Group Chairman, D J Flint who from 2011 will no longer receive annual bonus payments and is not expected to be granted awards of Performance Shares, and ST Gulliver, whose variable compensation arrangements for 2010 take into account wholesale banking market practice. With effect from 2011, ST Gulliver will be subject to the same arrangements as other executive Directors.

### Executive Directors' 2010 emoluments and remuneration

The emoluments of the Group Chairman and executive Directors of HSBC Holdings for 2010, disclosed pursuant to section 421 of the UK Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, were as follows:

£000	V H C Cheng		D J Flint		A A Flockhart		M F Geoghegan <sup>1</sup>		Lord Green <sup>2</sup>		ST Gulliver		I J Mackay <sup>3</sup>	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Salary	775	769	845	700	820	662	1,164	1,070	1,160	1,250	800	800	57	–
Allowances <sup>4</sup>	193	191	434	394	–	–	421	548	31	8	154	8	36	–
Benefits in kind <sup>5</sup>	311	663	8	8	629	437	430	57	3	4	17	18	27	–
Bonus <sup>6</sup>	284	–	1,805	–	1,385	–	2,824	–	–	–	2,934	–	24	–
Total emoluments	1,563	1,623	3,092	1,102	2,834	1,099	4,839	1,675	1,194	1,262	3,905	826	144	–
US\$000														
Total emoluments	2,414	2,532	4,775	1,719	4,377	1,714	7,473	2,613	1,844	1,969	6,031	1,288	222	–

The total remuneration of the Group Chairman and executive Directors of HSBC Holdings for 2010, disclosed pursuant to the UK Listing Rules, was as follows:

£000	V H C Cheng		D J Flint		A A Flockhart		M F Geoghegan <sup>1</sup>		Lord Green <sup>2</sup>		ST Gulliver		I J Mackay <sup>3</sup>	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Salary, allowances and benefits in kind	1,279	1,623	1,287	1,102	1,449	1,099	2,015	1,675	1,194	1,262	971	826	120	–
Bonus <sup>7</sup>	711	1,240	2,800	2,100	1,808	1,908	3,800	4,000	–	–	5,200	9,000	61	–
Total remuneration	1,990	2,863	4,087	3,202	3,257	3,007	5,815	5,675	1,194	1,262	6,171	9,826	181	–
US\$000														
Total remuneration	3,073	4,466	6,312	4,995	5,030	4,691	8,980	8,852	1,844	1,969	9,530	15,327	280	–

The variance in the above tables is caused by the different definitions of bonus under the UK Companies Act 2006 and the UK Listing Rules. Explanations of the constituent parts of the bonus calculated pursuant to the UK Companies Act 2006 and the UK Listing Rules are given in footnotes 6 and 7 respectively.

1 Stepped down as Group Chief Executive and a Director of HSBC Holdings on 31 December 2010. Retires from the Group on 31 March 2011.

2 Retired as Group Chairman and a Director of HSBC Holdings on 3 December 2010.

3 Appointed a Director of HSBC Holdings on 3 December 2010.

4 Allowances include an executive allowance paid to fund personal pension arrangements and a company car allowance.

5 Benefits in kind include provision of medical insurance, other insurance cover, accountancy advice and travel assistance. V H C Cheng, A A Flockhart and M F Geoghegan received housing and other benefits in kind that are normal within the location in which they are employed. I J Mackay relocated to London and he received temporary accommodation for him and his family together with other normal relocation benefits.

6 Where applicable, bonus comprises: (i) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares that will vest on 1 March 2011 arising from the 2009 bonus awarded in March 2010 that was fully deferred into awards of HSBC Holdings Restricted Shares, as follows: D J Flint, £685,000, A A Flockhart, £662,000, M F Geoghegan, £1,304,000 and ST Gulliver, £2,934,000; and (ii) 40% of the annual bonus in respect of the 2010 performance year that is non-deferred. The non-deferred bonus is payable half in cash and half in HSBC Holdings Restricted Shares which are subject to a six-month retention period. Full details are set out on page 32.

7 The bonus for 2010 comprises the deferred and non-deferred bonus, details of which are set out on page 32.

**Retirement of M F Geoghegan in 2011**

M F Geoghegan will continue to work under his existing compensation arrangements until his retirement on 31 March 2011; however, he will not be eligible to receive any bonus in respect of 2011. M F Geoghegan will receive the sum of £1,027,500, and the Group will also make a pension contribution on his behalf equal to £401,250, in lieu of the remaining nine months' notice period required to terminate the Service Agreement. Following his retirement, M F Geoghegan will provide consultancy to HSBC for a period of three months from 1 April 2011, at a consultancy fee of £200,000, which he intends to donate to charity. In accordance with our disclosure practices, these sums will also be fully disclosed in the 2011 Directors' Remuneration Report.

**Salary**

To reflect the significantly increased responsibilities and maintain and reinforce a collegiate executive team, the salaries for two executive Directors were adjusted from 1 February 2010, equalising the salaries of D J Flint, ST Gulliver and A A Flockhart. In addition, with effect from 2010 the employer pension contribution or executive allowance, in lieu of pension, for D J Flint, A A Flockhart and ST Gulliver were equalised at 50 per cent of basic salary.

On appointment as Group Chairman, the salary for D J Flint was increased to £1,500,000 with effect from 3 December 2010.

On appointment as Group Chief Executive, the salary for ST Gulliver was increased to £1,250,000, with effect from 1 January 2011.

On appointment as Chairman, Europe, Middle East, Africa, Latin America, Commercial Banking and Chairman of HSBC Bank plc, the salary for A A Flockhart was increased to £975,000, with effect from 1 January 2011.

I J Mackay was appointed an executive Director on 3 December 2010 with a base salary of £700,000, and will receive an executive allowance of 50 per cent in lieu of pension.

No other salary increases are proposed for executive Directors.

**Annual bonus**

The awards made to executive Directors in respect of 2010 performance will be 60 per cent deferred and 40 per cent non-deferred (with the exception of ST Gulliver, whose arrangements are noted below). 50 per cent of both the deferred and non-deferred components will be in the form of Restricted Shares issued under

the HSBC Share Plan. The remaining 50 per cent will be delivered as cash. The vesting policy as noted on page 32 under 'Executive Directors remuneration' will apply to the deferred awards.

ST Gulliver, at his request, will receive his 2010 annual bonus 100 per cent fully deferred in the form of Restricted Shares. This award will be subject to the same vesting policy for other executive Directors' deferred awards.

The award made to the former Group Chief Executive, M F Geoghegan, and the Group Chairman, D J Flint, in respect of his previous role as Chief Financial Officer, Executive Director, Risk and Regulation, reflects the overall achievements of the Group under the balanced scorecard and risk appetite framework. The 2010 results show an improved profit after tax and return on equity, although below our target range, and a strong core tier 1 capital position. Loan impairment charges as a percentage of total operating income reduced and the firm's economic profit position improved, although it remained in an overall negative position. Operational losses for the Group were reduced from last year and notwithstanding the Group's employee engagement score reduced year on year, it still maintained its position ahead of the industry norm. From 2011 onwards, D J Flint will no longer receive an annual bonus payment.

The award made to the Group Chief Executive, ST Gulliver, reflects his overall strong achievements in his previous role as Chairman, Europe, Middle East and Global Businesses. Profit before tax for the businesses within his remit decreased slightly; however, this was against challenging market conditions. Operational losses for the year, however, also reduced substantially as well as there being a substantial decrease in loan impairment charges as a percentage of total operating income.

The award made to V H C Cheng, Chairman of HSBC Bank (China) Company Limited, reflects his performance in ensuring the continued strategic development in mainland China.

The award made to A A Flockhart reflects his overall achievements in his previous role as Chairman, Personal and Commercial Banking and Insurance. Profit before tax increased and the return on equity increased in all areas from last year. Operational losses increased from last year, however, resulting in the cost efficiency across his remit to decrease.

The award for I J Mackay, reflects his overall achievements in his previous role as Chief Financial Officer, Asia-Pacific.

**Bonus awards**

	2010 performance <sup>1</sup>				2009 performance		2008 performance	
	Non-deferred		Deferred		Cash £000	Restricted Shares £000	Cash £000	Restricted Shares £000
	Cash £000	Restricted Shares £000	Cash £000	Restricted Shares £000				
V H C Cheng	142	142	213	213	–	1,240	–	1,639
D J Flint <sup>2</sup>	560	560	840	840	–	2,100	–	–
A A Flockhart	362	362	542	542	–	1,908	–	1,655
M F Geoghegan <sup>2,3</sup>	760	760	1,140	1,140	–	4,000	–	–
Lord Green <sup>4</sup>	–	–	–	–	–	–	–	–
ST Gulliver <sup>2,5</sup>	–	–	–	5,200	–	9,000	–	–
I J Mackay <sup>6</sup>	12	12	18	18	–	–	–	–

1 The awards made in respect of 2010 performance will be delivered as described on page 32.

2 D J Flint, M F Geoghegan and ST Gulliver requested that they not be considered for a bonus in respect of 2008.

3 M F Geoghegan has stated that subject to the shares being released, he will make total donations up to the size of his bonus awarded for 2009 performance to charities by 2013.

4 At the former Group Chairman's request, he was not considered for an annual bonus award in 2010, 2009 and 2008.

5 ST Gulliver has requested that 100% of the award made to him in respect of 2010 performance be fully deferred in Restricted Shares subject to the standard vesting and retention period.

6 Appointed a Director of HSBC Holdings on 3 December 2010.

### Performance Shares

No awards of Performance Shares have been made since 2008. No awards are proposed to date. Awards may be considered later in 2011, subject to the conclusion of the current consultation with shareholders concerning a revised approach as referenced on page 31.

The average actual vesting of Performance Share awards made in 2004, 2005, 2006 and 2007 (which were tested in 2007, 2008, 2009 and 2010) has been 26.88 per cent of their face value. The awards granted in 2007 did not satisfy the earnings per share condition but did satisfy the total shareholder return ('TSR') condition and accordingly, 75.6 per cent of the TSR element of the award (37.8 per cent of the overall award) vested. The awards made in 2008 have not satisfied the earnings per share or economic profit measures. The extent to which the TSR part of the award will vest will be determined following the completion of the three-year period on 25 March 2011.

### Description of performance conditions

The performance measures for the long-term incentive awards of Performance Shares under the HSBC Share Plan remain as follows.

The vesting of awards is based on three independent performance measures and an overriding 'sustained improvement' judgement by the Committee. The three Group measures are relative TSR (40 per cent of the award); economic profit (40 per cent); and growth in earnings per share (20 per cent).

These measures provide a basis on which to measure our relative and absolute performance over the long-term, taking into account an external measure of value creation, a measure of the extent to which the return on capital invested in HSBC is in excess of a benchmark return, and a direct measure of the profits generated for shareholders.

Awards will not vest unless the Committee is satisfied that our financial performance has shown a sustained improvement in the period since the award date.

The performance conditions are measured over a three-year performance period and awards forfeited to the extent that they have not been met. The performance measures and the targets described below apply to the last awards made in 2008.

### TSR award

TSR is measured against a comparator group comprising the largest global banks in the world as well as other banks against which we compete for business at a regional and/or local level. These companies are:

TSR comparator group	
AGEAS	ICBC
Banco Bradesco	Itau Unibanco
Banco Santander	JPMorgan Chase
Bank of America	Lloyds Banking Group
Bank of China	National Australia Bank
Barclays	Royal Bank of Canada
BBVA	Royal Bank of Scotland
BNP Paribas	Société Générale
Citigroup	Standard Chartered
Credit Suisse Group	UBS
DBS Group	UniCredito Italiano
Deutsche Bank	Wells Fargo

During 2008, HBOS and Wachovia merged with other banks in the comparator group and, in 2009, the remainder of the banking activities of Fortis were acquired by BNP Paribas, an existing member of the comparator group. For awards made in 2008, performance from the point of acquisition will track that of the acquirer. This approach retains the free float market capitalisation weighting of the combined entities. The Committee determined that the comparator group remains large enough to be statistically valid and as such it was not necessary to introduce any replacement banks.

The extent to which the TSR award vests is determined as follows:

If HSBC's TSR outperforms companies comprising	Proportion of TSR award vesting <sup>1</sup>
75% of the total free float market capitalisation	100%
50% of the total free float market capitalisation	20%
< 50% of the total free float market capitalisation	nil

<sup>1</sup> Vesting will occur in a straight line between 20% and 100% where our performance falls between these incremental steps.

### Economic profit award

Economic profit ('EP') is calculated as the average annual difference between return on invested capital and our benchmark cost of capital and is expressed as a percentage.

For the awards made in 2008, the benchmark cost of capital was 10 per cent. Return on invested capital is based on the profit attributable to shareholders. The extent to which the EP award vests is determined as follows:

Average annual EP over three years	Proportion of EP award vesting <sup>1</sup>
8% or above	100%
< 3%	nil

<sup>1</sup> Vesting will occur in a straight line between 0% and 100% where our performance falls between these incremental steps.

### Earnings per share award

Growth in EPS is measured on a point-to-point basis, by comparing EPS in the third financial year of the performance period with EPS in the financial year preceding that in which the award is made.

EPS growth in Year 3 over the base earnings per share	Proportion of EPS award vesting <sup>1</sup>
28% or above	100%
16%	20%
< 16%	nil

<sup>1</sup> Vesting will occur in a straight line between 20% and 100% where our performance falls between these incremental steps.

If events occur which cause the Committee to consider that a performance condition has become unfair or impractical in either direction, the right is reserved to the Committee, if it considers it appropriate, to amend, relax or waive the condition.

Awards will vest in full and immediately in cases of death. In the event of redundancy, retirement on grounds of injury or ill health and where a participant ceases to be employed by HSBC due to a company ceasing to be part of HSBC, awards will normally vest at the end of the vesting period on a time-apportioned basis to the extent

that the performance conditions have been satisfied. In the event of a change of control, awards will normally vest immediately and on a time-apportioned basis to the extent that the performance conditions have been satisfied. Awards will normally be forfeited if the participant is dismissed for cause or resigns from HSBC. In all circumstances the Committee retains discretion to ensure fair and reasonable treatment.

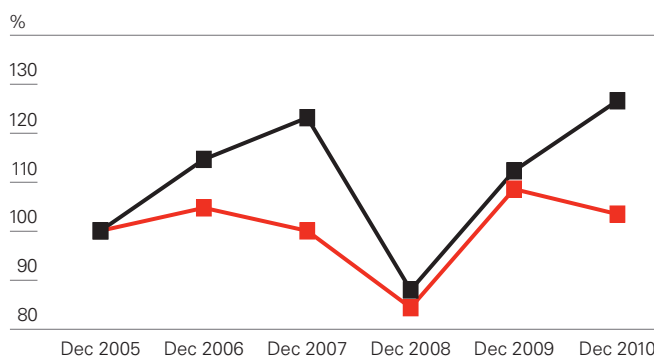
**Funding**

The dilution limits set out in the HSBC share plans comply with the Association of British Insurers' guidelines. To date, all vesting awards of Performance Shares and Restricted Shares under the HSBC Share Plan have been satisfied by the transfer of existing shares. To create additional core tier 1 capital and retain funds within HSBC, the Board has agreed that new shares may be issued to satisfy the vesting of awards of Restricted and Performance Shares that cannot be satisfied from shares already held by employee benefit trusts commencing in 2011.

**Total shareholder return**

Pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graph opposite shows the TSR performance against the FTSE 100 Index for the five-year period ended 31 December 2010. The FTSE 100 Index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.

HSBC TSR and FTSE 100 Index



— HSBC total shareholder return — FTSE 100

Source: International Data Corporation

**Pensions**

The normal retirement age for executive Directors is 65, with the exception of V H C Cheng, for whom no retirement age is specified in keeping with local legislation. The pension entitlements of the executive Directors for 2010 are set out on page 37.

**Service contracts**

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

Name	Contract date (rolling)	Notice period (Director and HSBC)	Compensation on termination by the company without notice or cause
V H C Cheng	15 March 2010	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits.
D J Flint	14 February 2011	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits.
A A Flockhart	14 February 2011	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits. Eligible to be considered for a bonus upon termination of employment other than where the Executive has resigned or the Company has terminated the Executive's employment with the contractual right to do so.
M F Geoghegan <sup>1</sup>	26 February 2010	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits. Eligible for a bonus calculated as not less than the average of the previous two years of bonus payments received, pro-rated for any part-year worked to termination.
Lord Green <sup>2</sup>	28 February 2008	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits. Eligible for a bonus calculated as not less than the average of the previous two years of bonus payments received, pro-rated for any part-year worked to termination.
S T Gulliver <sup>3</sup>	10 February 2011	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits. Eligible to be considered for a bonus upon termination of employment other than where the Executive has resigned or the Company has terminated the Executive's employment with the contractual right to do so.
I J Mackay <sup>4</sup>	4 February 2011	12 months	Payment in lieu of notice equal to base salary, pension entitlements and other benefits. Eligible to be considered for a bonus upon termination of employment other than where the Executive has resigned or the Company has terminated the Executive's employment with the contractual right to do so.

1 Stepped down as Group Chief Executive and a Director of HSBC Holdings on 31 December 2010.

2 Retired as Group Chairman and a Director of HSBC Holdings on 3 December 2010.

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

4 Appointed a Director of HSBC Holdings on 3 December 2010.

**Non-executive Directors**

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

- in 2011, S A Catz, J D Coombe, J W J Hughes-Hallett, W S H Laidlaw and N R N Murthy;
- in 2012, M K T Cheung, J R Lomax, Sir Simon Robertson, J L Thornton and Sir Brian Williamson; and
- in 2013, R A Fairhead and G Morgan.

L M L Cha was appointed a non-executive Director with effect from 1 March 2011. Subject to her re-election by shareholders at the Annual General Meeting in 2011, her term will expire in 2014.

**Fees**

Non-executive Directors' fees are regularly reviewed and compared with other large international companies of comparable complexity. The current fee, which was approved by shareholders in 2006, is £65,000 per annum. Having considered comprehensive data it is clear that the current non-executive Directors' fee is below the level paid in other major UK companies. The approval will therefore be sought at the Annual General Meeting in 2011 for the fee for non-executive Directors to be increased to £95,000 per annum with effect from 1 January 2011. A fee of £30,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees:

**Board Committee annual fees<sup>1</sup>**

	Chairman £000	Member £000	Meetings held during 2010 (Number)
Group Audit Committee	40	20	6
Group Risk Committee	40	20	4
Remuneration Committee	40	20	9
Nomination Committee	30	20	3
Corporate Sustainability Committee	30	20	5

1 The Board will consider increasing the fees for service on Board Committees during 2011.

The total of fees paid to each of the non-executive Directors of HSBC Holdings for 2010, being emoluments for the purposes of the UK Companies Act 2006, is as follows:

**Fees paid to non-executive Directors**

	2010 £000	2009 £000
S A Catz	65	65
M K T Cheung <sup>1</sup>	112	89
J D Coombe	130	105
J L Durán <sup>2</sup>	27	65
R A Fairhead	152	135
W K L Fung <sup>2,3</sup>	54	132
J W J Hughes-Hallett	105	105
W S H Laidlaw	85	85
J R Lomax	102	82
Sir Mark Moody-Stuart <sup>2</sup>	51	125
G Morgan	85	85
N R N Murthy	91	85
Sir Simon Robertson	115	115
J L Thornton <sup>4</sup>	1,068	1,040
Sir Brian Williamson	87	95
<b>Total</b>	<b>2,329</b>	<b>2,408</b>
<b>Total (US\$000)</b>	<b>3,597</b>	<b>3,756</b>

1 Includes fees as a non-executive Director and member of the Audit Committee of Hang Seng Bank Limited.

2 Retired as a Director on 28 May 2010.

3 Includes fees as non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited.

4 Includes fees as non-executive Chairman of HSBC North America Holdings Inc.

**Pensions**

V H C Cheng is a member of the Hong Kong Special Administrative Region Mandatory Provident Fund ("MPF") and received an executive allowance of 25 per cent of annual basic salary during 2010, less the mandatory contributions to the MPF by both the employer and employee, to fund personal pension arrangements (HK\$2,313,000). During 2010, the mandatory employer contribution to the MPF in respect of Mr Cheng was HK\$12,000.

D J Flint received an executive allowance of 55 per cent of basic salary in lieu of personal pension arrangements in the month of January. From 1 February 2010, this allowance was reduced to 50 per cent of basic salary. The executive allowance for the whole of 2010 amounted to £425,224.

A A Flockhart received employer contributions of 40 per cent of basic salary into a personal pension plan in the month of January 2010. From 1 February 2010, Mr Flockhart received employer contributions of 50 per cent of basic salary into a pension plan. The employer contributions for the whole of 2010 amounted to £404,319.

M F Geoghegan received an executive allowance of 50 per cent of basic salary in lieu of pension between 1 January and 25 January 2010. From 26 January 2010, Mr Geoghegan received employer contributions of 50 per cent of basic salary into a pension plan. The employer contributions for the whole of 2010 amounted to £560,486.

Lord Green ceased membership of the HSBC Bank (UK) Pension Scheme on 5 April 2006. Since 6 April 2006, Lord Green has been entitled to receive benefits from an Employer Funded Retirement Benefits Scheme which together with entitlements from the HSBC Bank (UK) Pension Scheme provided benefits to Lord Green that were broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service. Lord Green retired on 3 December 2010 and began receiving his pension from 4 December 2010.

ST Gulliver received employer contributions of 30 per cent of basic salary into a personal pension plan in the month of January 2010. From 1 February 2010, Mr Gulliver's pension arrangements were increased to 50 per cent of basic salary. This was delivered as employer contributions of 30 per cent of basic salary into a personal pension plan and an executive allowance of 20 per cent of basic salary. The employer contributions and the executive allowance for the whole of 2010 amounted to £386,667.

I J Mackay received an executive allowance of 50 per cent of basic salary in lieu of pension with effect from his appointment as executive Director on 3 December 2010 (£28,269 for the period to 31 December 2010) to fund personal pension arrangements.

**Defined benefit pension arrangements**

	Accrued annual pension at 31 December 2010 £000	Increase in accrued pension during 2010 £000	Increase in accrued pension during 2010, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2009 <sup>1</sup> £000	Transfer value of accrued pension at 31 December 2010 <sup>1</sup> £000	Increase of transfer value of accrued pension (less personal contributions) in 2010 <sup>1</sup> £000	Transfer value (less personal contributions) at 31 December 2010 relating to increase in accrued pensions during 2010, excluding any increase for inflation <sup>1</sup> £000
A A Flockhart <sup>2</sup>	283	13	13	4,863	4,974	111	201
Lord Green <sup>3</sup>	–	38	5	19,119	–	381	–

1 The transfer value represents a liability of HSBC's pension funds and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.

2 A A Flockhart ceased accrual of pension in the International Staff Retirement Benefits Scheme ('ISRBS') on 30 November 2008 and he has deferred commencement of his pension. He received no increase for inflation to his accrued pension on 1 January 2010. The ISRBS retains a liability for a contingent spouse's pension of £129,900 per annum as at 31 December 2010.

3 Lord Green retired as a Director on 3 December 2010 and commenced receiving his pension from 4 December 2010.

The table below shows unfunded pension payments, in respect of which provision has been made, during 2010 to six former Directors of HSBC Holdings.

The payments in respect of R Delbridge and Sir Brian Pearse were made by HSBC Bank plc as former directors of that bank. The payment in respect of C F W de Croisset was made by HSBC France as a former director of that bank. There were no increases to sterling values of the pensions during 2010.

	2010 £	2009 £
B H Asher	101,858	101,858
C F W de Croisset	237,662	247,115
R Delbridge	146,507	146,507
Lord Green	2,992	–
Sir Brian Pearse	61,095	61,095
Sir William Purves	107,827	107,827
	<b>657,941</b>	664,402

**Share plans**

At 31 December 2010, the undernamed Directors held options and awards of Performance Shares and Restricted Shares to acquire the number of HSBC Holdings ordinary shares set against their respective names.

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

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Exercise price	Exercisable		At 1 Jan 2010	At 31 Dec 2010
			from <sup>1</sup>	until		
D J Flint	25 Apr 2007	£6.1760	1 Aug 2012	31 Jan 2013	2,650	2,650
A A Flockhart	29 Apr 2009	£3.3116	1 Aug 2014	31 Jan 2015	4,529	4,529
I J Mackay	30 Apr 2008	US\$11.8824	1 Aug 2011	31 Jan 2012	1,531 <sup>2</sup>	1,531

The HSBC Holdings savings-related share option plans are all-employee share plans under which eligible HSBC employees may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. The plans help align the interests of employees with the creation of shareholder value and, as such, exercise of the options is not subject to any performance conditions. The options were awarded for nil consideration and are exercisable at a 20% discount to the average market value of the ordinary shares on the five business days immediately preceding the invitation date. No options lapsed during the year. There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. The market value per ordinary share at 31 December 2010 was £6.511. The highest and lowest market values per ordinary share during the year were £7.404 and £5.962. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

1 May be advanced to an earlier date in certain circumstances, e.g. retirement.

2 Interest at 3 December 2010 – date of appointment.



**Awards of Performance Shares**
*HSBC Share Plan*

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards vested during year <sup>1,2</sup>			
			Awards held at 1 Jan 2010	Number	Monetary value £000	Awards held at 31 Dec 2010 <sup>3</sup>
V H C Cheng	5 Mar 2007	2010	<b>218,035</b>	<b>83,769</b>	<b>560</b>	–
	3 Jun 2008	2011	<b>157,852</b>	–	–	<b>163,188</b>
D J Flint	5 Mar 2007	2010	<b>326,626</b>	<b>125,489</b>	<b>838</b>	–
	3 Jun 2008	2011	<b>455,210</b>	–	–	<b>470,596</b>
A A Flockhart	5 Mar 2007	2010	<b>145,238</b>	<b>55,799</b>	<b>373</b>	–
	3 Jun 2008	2011	<b>155,227</b>	–	–	<b>160,474</b>
M F Geoghegan	5 Mar 2007	2010	<b>742,334</b>	<b>285,205</b>	<b>1,905</b>	–
	3 Jun 2008	2011	<b>1,069,746</b>	–	–	<b>1,105,902</b>
Lord Green	5 Mar 2007	2010	<b>556,750</b>	<b>213,903</b>	<b>1,429</b>	–
	3 Jun 2008	2011	<b>1,251,829</b>	–	–	<b>1,294,140<sup>4</sup></b>
S T Gulliver	5 Mar 2007	2010	<b>161,319</b>	<b>61,979</b>	<b>414</b>	–
	3 Jun 2008	2011	<b>67,631</b>	–	–	<b>69,917</b>

Vesting of these awards of Performance Shares is subject to the achievement of the corporate performance conditions set out on pages 35 to 36. Interests in awards of Performance Shares are categorised under the Securities and Futures Ordinance of Hong Kong as the interests of a beneficiary of a trust.

- The performance conditions of the total shareholder return element of the award were partially met and the following part of the awards vested on 31 March 2010, when the market value per share was £6.68: V H C Cheng, 82,957 shares; D J Flint, 124,273 shares; A A Flockhart, 55,259 shares; M F Geoghegan, 282,440 shares; Lord Green, 211,830 shares; and ST Gulliver, 61,378 shares. The following awards representing the fourth interim dividend for 2009 vested on 5 May 2010, when the market value per share was £6.53: V H C Cheng, 812 shares; D J Flint, 1,216 shares; A A Flockhart, 540 shares; M F Geoghegan, 2,765 shares; Lord Green, 2,073 shares; and ST Gulliver, 601 shares. The market value per share on the date of the award, 5 March 2007, was £8.96.
- The performance conditions for the earnings per share element and the remaining part of the total shareholder return element of the award were not met and, under the terms of the Plan, the following awards were forfeited on 31 March 2010: V H C Cheng, 136,506 shares; D J Flint, 204,493 shares; A A Flockhart, 90,931 shares; M F Geoghegan, 464,757 shares; Lord Green, 348,568 shares; and ST Gulliver, 100,998 shares. As a consequence, the fourth interim dividend for 2009 did not accrue on the forfeited shares.
- Includes additional shares arising from scrip dividends.
- Interest at 3 December 2010 – date of retirement.

**Awards of Restricted Shares**
*HSBC Share Plan*

HSBC Holdings ordinary shares of US\$0.50

	Date of award	Year in which awards may vest	Awards made during year <sup>1</sup>			Awards vested during year <sup>2</sup>		Awards held at 31 Dec 2010 <sup>3</sup>
			Awards held on 1 Jan 2010	Number	Monetary value £000	Number	Monetary value £000	
V H C Cheng	3 Mar 2008	2010 <sup>4</sup>	<b>103,936</b>	–	–	<b>104,616</b>	<b>713</b>	–
	2 Mar 2009	2012	<b>493,545</b>	–	–	–	–	<b>510,226</b>
	1 Mar 2010	2013	–	<b>193,534</b>	<b>1,320</b>	–	–	<b>198,773</b>
D J Flint	1 Mar 2010	2011-2013 <sup>5</sup>	–	<b>307,917</b>	<b>2,100</b>	–	–	<b>316,252</b>
A A Flockhart	31 Oct 2007	2010	<b>64,621</b>	–	–	<b>66,806<sup>6</sup></b>	<b>434</b>	–
	3 Mar 2008	2011	<b>15,064</b>	–	–	–	–	<b>15,572</b>
	2 Mar 2009	2012	<b>498,124</b>	–	–	–	–	<b>514,960</b>
	1 Mar 2010	2011-2013 <sup>5</sup>	–	<b>297,746</b>	<b>2,031</b>	–	–	<b>305,806</b>
M F Geoghegan	1 Mar 2010	2011-2013 <sup>5</sup>	–	<b>586,510</b>	<b>4,000</b>	–	–	<b>602,387</b>
S T Gulliver	5 Mar 2007	2008-2010 <sup>5</sup>	<b>191,842</b>	–	–	<b>193,099</b>	<b>1,317</b>	–
	3 Mar 2008	2009-2011 <sup>5</sup>	<b>388,157</b>	–	–	<b>202,986</b>	<b>1,384</b>	<b>192,796</b>
	1 Mar 2010	2011-2013 <sup>5</sup>	–	<b>1,319,648</b>	<b>9,000</b>	–	–	<b>1,355,371</b>
I J Mackay	31 Jul 2007	2009-2011 <sup>7</sup>	<b>47,679<sup>8</sup></b>	–	–	–	–	<b>47,679</b>
	31 Mar 2008	2011	<b>46,252<sup>8</sup></b>	–	–	–	–	<b>46,252</b>
	2 Mar 2009	2012	<b>100,309<sup>8</sup></b>	–	–	–	–	<b>100,309</b>
	1 Mar 2010	2011-2013 <sup>5</sup>	<b>59,262<sup>8</sup></b>	–	–	–	–	<b>59,262</b>

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The vesting date may be advanced to an earlier date in certain circumstances, e.g. death or retirement. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards granted in 2007 and 2008 are categorised as the interests of a beneficiary of a trust and interests in Restricted Share awards granted in 2009 and 2010 are categorised as the interests of a beneficial owner.

- At the date of the award, 1 March 2010, the market value per share was £6.82.
- At the date of vesting, 1 March 2010, the market value per share was £6.82. The market value per share on the dates of the awards, 5 March 2007 and 3 March 2008, was £8.96 and £7.90 respectively.
- Includes additional shares arising from scrip dividends.
- Vesting accelerated from 2011 to 2010.
- 33% of the award vests on each of the first and second anniversaries of the date of the award, with the balance vesting on the third anniversary of the date of the award.
- At the date of vesting, 29 October 2010, the market value per share was £6.49. The market value per share on the date of the award, 31 October 2007 was £9.51.
- 33% of the award vests on each of the second and third anniversaries of the date of the award, with the balance vesting on the fourth anniversary of the date of the award.
- Interest at 3 December 2010 – date of appointment.

## Summary Financial Statement

# Summary Consolidated Income Statement

Year ended 31 December	2010 US\$m	2009 US\$m	2008 US\$m
Interest income	58,345	62,096	91,301
Interest expense	(18,904)	(21,366)	(48,738)
<b>Net interest income</b>	<b>39,441</b>	<b>40,730</b>	<b>42,563</b>
Fee income	21,117	21,403	24,764
Fee expense	(3,762)	(3,739)	(4,740)
<b>Net fee income</b>	<b>17,355</b>	<b>17,664</b>	<b>20,024</b>
Trading income excluding net interest income	4,680	6,236	847
Net interest income on trading activities	2,530	3,627	5,713
<b>Net trading income</b>	<b>7,210</b>	<b>9,863</b>	<b>6,560</b>
Changes in fair value of long-term debt issued and related derivatives	(258)	(6,247)	6,679
Net income/(expense) from other financial instruments designated at fair value	1,478	2,716	(2,827)
<b>Net income/(expense) from financial instruments designated at fair value</b>	<b>1,220</b>	<b>(3,531)</b>	<b>3,852</b>
Gains less losses from financial investments	968	520	197
Dividend income	112	126	272
Net earned insurance premiums	11,146	10,471	10,850
Gains on disposal of French regional banks	-	-	2,445
Other operating income	2,562	2,788	1,808
<b>Total operating income</b>	<b>80,014</b>	<b>78,631</b>	<b>88,571</b>
Net insurance claims incurred and movement in liabilities to policyholders	(11,767)	(12,450)	(6,889)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>68,247</b>	<b>66,181</b>	<b>81,682</b>
Loan impairment charges and other credit risk provisions	(14,039)	(26,488)	(24,937)
<b>Net operating income</b>	<b>54,208</b>	<b>39,693</b>	<b>56,745</b>
Employee compensation and benefits	(19,836)	(18,468)	(20,792)
General and administrative expenses	(15,156)	(13,392)	(15,260)
Depreciation and impairment of property, plant and equipment	(1,713)	(1,725)	(1,750)
Goodwill impairment	-	-	(10,564)
Amortisation and impairment of intangible assets	(983)	(810)	(733)
<b>Total operating expenses</b>	<b>(37,688)</b>	<b>(34,395)</b>	<b>(49,099)</b>
<b>Operating profit</b>	<b>16,520</b>	<b>5,298</b>	<b>7,646</b>
Share of profit in associates and joint ventures	2,517	1,781	1,661
<b>Profit before tax</b>	<b>19,037</b>	<b>7,079</b>	<b>9,307</b>
Tax expense	(4,846)	(385)	(2,809)
<b>Profit for the year</b>	<b>14,191</b>	<b>6,694</b>	<b>6,498</b>
<b>Profit attributable to shareholders of the parent company</b>	<b>13,159</b>	<b>5,834</b>	<b>5,728</b>
<b>Profit attributable to non-controlling interests</b>	<b>1,032</b>	<b>860</b>	<b>770</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Basic earnings per ordinary share	0.73	0.34	0.41
Diluted earnings per ordinary share	0.72	0.34	0.41

## Summary Financial Statement

# Summary Consolidated Balance Sheet

At 31 December	2010 US\$m	2009 US\$m
<b>Assets</b>		
Cash and balances at central banks	57,383	60,655
Items in the course of collection from other banks	6,072	6,395
Hong Kong Government certificates of indebtedness	19,057	17,463
Trading assets	385,052	421,381
Financial assets designated at fair value	37,011	37,181
Derivatives	260,757	250,886
Loans and advances to banks	208,271	179,781
Loans and advances to customers	958,366	896,231
Financial investments	400,755	369,158
Other assets	43,251	44,534
Current tax assets	1,096	2,937
Prepayments and accrued income	11,966	12,423
Interests in associates and joint ventures	17,198	13,011
Goodwill and intangible assets	29,922	29,994
Property, plant and equipment	11,521	13,802
Deferred tax assets	7,011	8,620
<b>Total assets</b>	<b>2,454,689</b>	<b>2,364,452</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Hong Kong currency notes in circulation	19,057	17,463
Deposits by banks	110,584	124,872
Customer accounts	1,227,725	1,159,034
Items in the course of transmission to other banks	6,663	5,734
Trading liabilities	300,703	268,130
Financial liabilities designated at fair value	88,133	80,092
Derivatives	258,665	247,646
Debt securities in issue	145,401	146,896
Other liabilities	28,050	68,640
Current tax liabilities	1,804	2,140
Liabilities under insurance contracts	58,609	53,707
Accruals and deferred income	13,906	13,190
Provisions	2,138	1,965
Deferred tax liabilities	1,093	1,837
Retirement benefit liabilities	3,856	6,967
Subordinated liabilities	33,387	30,478
<b>Total liabilities</b>	<b>2,299,774</b>	<b>2,228,791</b>
<b>Equity</b>		
Called up share capital	8,843	8,705
Share premium account	8,454	8,413
Other equity instruments	5,851	2,133
Other reserves	27,169	22,236
Retained earnings	97,350	86,812
<b>Total shareholders' equity</b>	<b>147,667</b>	<b>128,299</b>
Non-controlling interests	7,248	7,362
<b>Total equity</b>	<b>154,915</b>	<b>135,661</b>
<b>Total equity and liabilities</b>	<b>2,454,689</b>	<b>2,364,452</b>

### Douglas Flint

Group Chairman

## Summary Financial Statement

# Notes on the Summary Financial Statement

### 1. Basis of preparation

#### Summary Financial Statement

This Summary Financial Statement is a summary of information in the *Annual Report and Accounts 2010*. It does not contain sufficient information to allow for a full understanding of the results of HSBC or the financial position of HSBC Holdings plc. The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings included in the *Annual Report and Accounts 2010* have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting these consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC's financial statements for the year ended 31 December 2010 are prepared in accordance with IFRSs as issued by the IASB.

### 2. Directors' emoluments

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

	2010 US\$000	2009 US\$000	2008 US\$000
Fees	3,597	3,756	2,529
Salaries and other emoluments	12,841	11,835	11,584
Bonuses	14,294	–	–
	<b>30,732</b>	15,591	14,113
Gains on the exercise of share options	–	–	23
Vesting of long-term incentive awards	8,523	1,579	7,147

In addition, there were payments under retirement benefit agreements with former Directors of US\$1,016,089 (2009: US\$1,036,385). The provision at 31 December 2010 in respect of unfunded pension obligations to former Directors amounted to US\$17,628,508 (2009: US\$16,296,028).

During the year, aggregate contributions to pension schemes in respect of Directors were US\$1,055,582 (2009: US\$788,734). Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee. Details of Directors' remuneration, share options and conditional awards under the Restricted Share Plan 2000 and the HSBC Share Plan are included in the 'Summary Directors' Remuneration Report' on pages 38 to 39.

### 3. Particulars of advances, credits and guarantees

Particulars of advances (loans and quasi-loans), credits and guarantees entered into by subsidiaries of HSBC Holdings during 2010 with Directors, disclosed pursuant to section 413 of the Companies Act 2006, are shown below:

	At 31 December	
	2010 US\$m	2009 US\$m
Advances and credits	9	5

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

	2010		2009	
	Balance at 31 December US\$m	Highest amounts outstanding during year US\$m	Balance at 31 December US\$m	Highest amounts outstanding during year US\$m
<b>Key management personnel<sup>1</sup></b>				
Advances and credits	901	1,681	736	1,407
Guarantees	27	31	32	34

<sup>1</sup> Includes key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

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

### 4. Earnings per share

Basic and diluted earnings per ordinary share are calculated pursuant to the requirements of International Accounting Standard 33. For the year ended 31 December 2010, basic earnings per share was US\$0.73 (2009: US\$0.34; 2008: US\$0.41) and diluted earnings per share was US\$0.72 (2009: US\$0.34; 2008: US\$0.41).

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

	2010 US\$m	2009 US\$m
HSBC Holdings ordinary shares <sup>1</sup>	8,843	8,705

HSBC Holdings ordinary shares of US\$0.50 each	Number	US\$m
At 1 January 2010	17,408,206,768	8,705
Shares issued under HSBC employee share plans	25,001,734	12
Shares issued in lieu of dividends	252,947,400	126
At 31 December 2010	17,686,155,902	8,843

<sup>1</sup> All ordinary shares in issue confer identical rights in respect of capital, dividends, voting and otherwise.

HSBC Holdings non-cumulative preference shares of US\$0.01 each	Number	US\$m
At 1 January 2010 and 31 December 2010	1,450,000	–

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

On 29 December 2010, HSBC Holdings issued one non-cumulative sterling preference share of £0.01 for £1.00 to facilitate the cancellation of the non-voting deferred shares and comply with the provisions of the Companies (Authorised Minimum) Regulations 2009.

**HSBC Holdings non-voting deferred shares**

301,500 non-voting deferred shares of £1 each were in issue throughout 2009 and up to 29 December 2010 and were held by a subsidiary of HSBC Holdings. As part of a technical internal capital reorganisation necessitated by the amended EU Capital Requirements Directive 2, which applied to HSBC Holdings from 31 December 2010, all of the non-voting deferred shares of £1.00 each were cancelled.

**Perpetual Subordinated Capital Securities**

During June 2010, HSBC Holdings issued, in bearer form, 152 million 8.00% of Perpetual Subordinated Capital Securities, Series 2 ('Capital Securities, Series 2'), each with a par value of US\$25 and with an aggregate nominal value of US\$3,800 million. The Capital Securities, Series 2 were issued at par value, raising US\$3,718 million, net of issuance costs.

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

A fourth interim dividend for 2010 of US\$0.12 per ordinary share (a distribution of approximately US\$2,125 million) was declared by the Directors after 31 December 2010.

These accounts were approved by the Board of Directors on 28 February 2011 and authorised for issue.

**7. Foreign exchange amounts**

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

	At 31 December	
	2010	2009
Closing: HK\$/US\$	7.773	7.754
£/US\$	0.644	0.616
Average: HK\$/US\$	7.769	7.752
£/US\$	0.648	0.641

**8. Other information**

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2010*. It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as would be provided by the full *Annual Report and Accounts 2010*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2010* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Internal Communications, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; and Direction de la Communication, HSBC France, 103 avenue des Champs Élysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts 2010* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on page 393 of the *Annual Report and Accounts 2010*.

The *Annual Report and Accounts 2010* may be viewed on the HSBC web site: [www.hsbc.com](http://www.hsbc.com).

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

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

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

We have examined the summary financial statement for the year ended 31 December 2010 set out on pages 26 to 43.

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

## **Respective responsibilities of Directors and auditor**

The Directors are responsible for preparing the *Annual Review 2010* in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the *Annual Review 2010* with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the *Annual Review 2010* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

## **Basis of opinion**

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

## **Opinion**

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2010 and complies with the applicable requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (28 February 2011) and the date of this statement.

## **G Bainbridge, Senior Statutory Auditor**

for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
London, England

10 March 2011

# Shareholder Information

## Fourth interim dividend for 2010

The Directors have declared a fourth interim dividend for 2010 of US\$0.12 per ordinary share. Information on the scrip dividend scheme and currencies in which shareholders may elect to have the cash dividend paid will be sent to shareholders on or about 30 March 2011. The timetable for the dividend is:

Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	16 March 2011
American Depositary Shares (ADSs) quoted ex-dividend in New York	16 March 2011
Record date in Hong Kong	17 March 2011
Record date in London, New York, Paris and Bermuda <sup>1</sup>	18 March 2011
Mailing of <i>Annual Report and Accounts 2010</i> and/or <i>Annual Review 2010, Notice of Annual General Meeting</i> and dividend documentation	30 March 2011
Final date for receipt by registrars of forms of election, Investor Centre electronic instructions and revocations of standing instructions for scrip dividends	20 April 2011
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	27 April 2011
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	5 May 2011

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

## Interim dividends for 2011

The Board has adopted a policy of paying quarterly interim dividends on the ordinary shares. Under this policy, it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2011 will be US\$0.09 per ordinary share. The proposed timetables for the dividends in respect of 2011 are:

	Interim dividends for 2011			
	First	Second	Third	Fourth
Announcement	3 May 2011	1 August 2011	7 November 2011	27 February 2012
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	18 May 2011	17 August 2011	23 November 2011	14 March 2012
ADSs quoted ex-dividend in New York	18 May 2011	17 August 2011	23 November 2011	14 March 2012
Record date in Hong Kong	19 May 2011	18 August 2011	24 November 2011	15 March 2012
Record date in London, New York, Paris and Bermuda <sup>1</sup>	20 May 2011	19 August 2011	25 November 2011	16 March 2012
Payment date	6 July 2011	6 October 2011	18 January 2012	2 May 2012

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

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

## Annual General Meeting

The 2011 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 27 May 2011 at 11.00am.

## Interim Management Statements and interim results

Interim Management Statements are expected to be issued on or around 12 May 2011 and 9 November 2011. The interim results for the six months to 30 June 2011 are expected to be issued on 1 August 2011.

## Shareholder enquiries and communications

Any enquiries relating to shareholdings on the share register, for example, transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrars at the address given on page 47. The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

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

## Investor relations

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

Manager Investor Relations HSBC Holdings plc 8 Canada Square London E14 5HQ United Kingdom	SVP Investor Relations HSBC North America Holdings Inc. 26525 N Riverwoods Boulevard Mettawa, Illinois 60045 USA	Head of Investor Relations, Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong
Telephone: 44 020 7991 8041	1 224 544 4400	852 2822 4908
Facsimile: 44 0845 587 0225	1 224 552 4400	852 2537 5109
Email: investorrelations@hsbc.com	investor.relations.usa@us.hsbc.com	investorrelations@hsbc.com.hk

### Annual Review 2010

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

*For those in Europe, the Middle East and Africa:*  
Group Communications  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
United Kingdom

*For those in Asia-Pacific:*  
Group Communications (Asia)  
The Hongkong and Shanghai  
Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

*For those in the Americas:*  
Internal Communications  
HSBC – North America  
26525 N Riverwoods Boulevard  
Mettawa  
Illinois 60045  
USA

### Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive a notification of their availability on HSBC's website. To receive future notifications of the availability of a corporate communication on HSBC's website by email, or revoke or amend an instruction to receive such notifications by email, go to [www.hsbc.com/ecomms](http://www.hsbc.com/ecomms). If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy of it, or if you would like to receive future corporate communications in printed form, please write or send an email to the appropriate Registrars at the address given on page 47. Printed copies will be provided without charge.

### Chinese translation

A Chinese translation of this *Annual Review* is available upon request after 30 March 2011 from the Registrars.

Please also contact the Registrars if you wish to receive Chinese translations of future documents or if you have received a Chinese translation of this document and do not wish to receive such translations in future.

《年度回顧》備有中譯本，各界人士可於2011年3月30日之後，向股份登記處索閱。

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

### French translation

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

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

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



# Contacts

## **HSBC Holdings plc**

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

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## **Registrars**

### *Principal Register*

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United Kingdom  
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This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2010*. The *Annual Report and Accounts 2010* may be viewed on our web site: [www.hsbc.com](http://www.hsbc.com).

It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full *Annual Report and Accounts 2010*.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2010* from Group Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Internal Communications, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Élysées, 75419 Paris Cedex 08, France.

A Chinese translation of the *Annual Report and Accounts 2010* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on page 47.

#### Photography

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Page 6 Group Chairman; pages 8-9 Board of Directors: Charles Best

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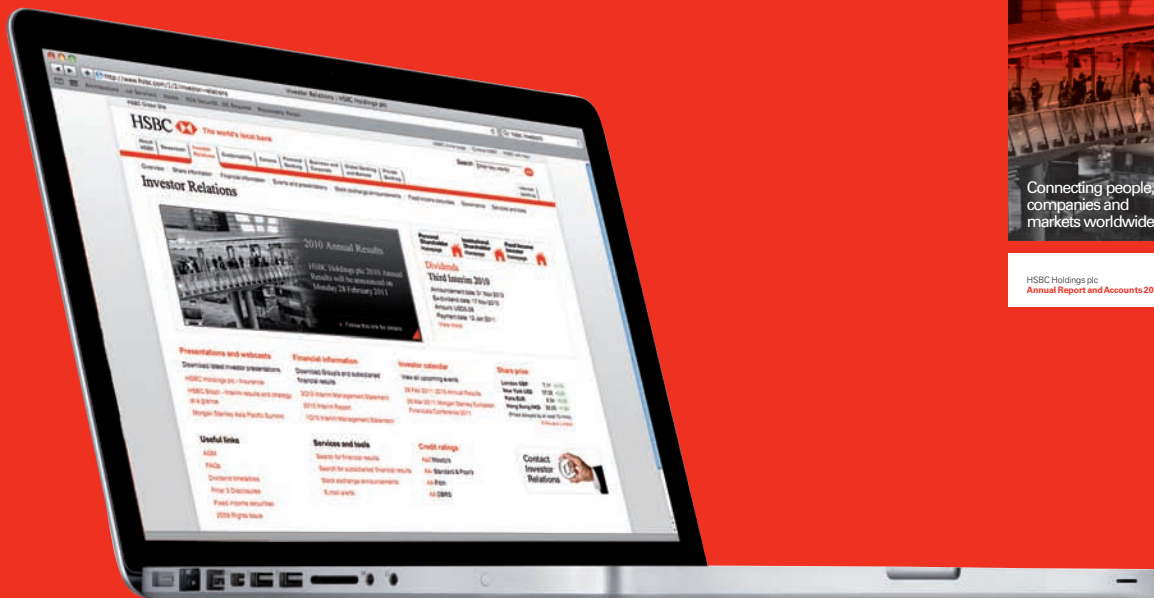


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