Connecting customers to opportunities

HSBC Holdings plc
Annual Review 2011

HSBC

Who we are and what we do

HSBC is one of the world's largest banking and financial services organisations. With around 7,200 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper and, ultimately, helping people to fulfil their hopes and realise their ambitions.

We serve around 89 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 85 countries and territories in Europe, the Asia-Pacific region, the Middle East, Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 132 countries and territories.

Cover image: 'Connecting customers to opportunities'

Trade will continue to drive growth in the coming years as the rapid development of 'South-South' trading routes – linking Asia with the Middle East and Latin America – transforms the global economy.

Our cover picture illustrates one such connection between the faster-growing economies of China and Brazil. It shows a Chinese ship delivering a quay crane to the Port of Santos in Brazil, the hub for almost a quarter of Brazil's trade and Latin America's largest port. The *Zhen Hua 25* is owned by a Shanghai-based shipping company – a subsidiary of an HSBC client – whose fleet transports heavy machinery and marine engineering equipment made in China to 176 ports in 76 countries worldwide.

China is now Brazil's largest trading partner. To support our customers at both ends of this growing trade corridor, HSBC established a Brazil-China trade desk in São Paulo and in Shanghai in 2010. HSBC's contribution to the growth of economic ties between the two countries was recognised in 2011 when we were named 'financial institution of the year' by the Brazil-China Chamber of Commerce.

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A Premier banking service
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Financing 'South-South' trade
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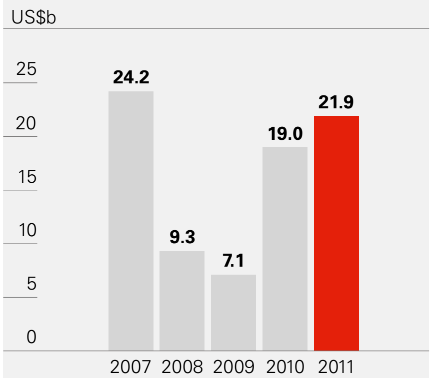
Highlights of 2011

Financial highlights

Profit before taxation
(reported basis)

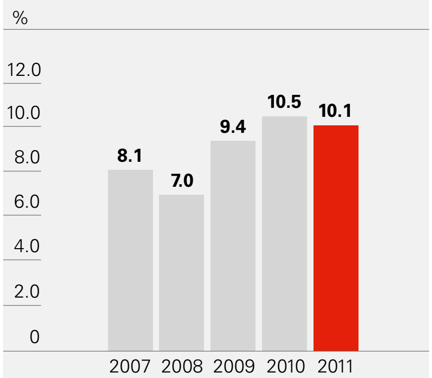
US$21.9b



Capital strength

10.1%

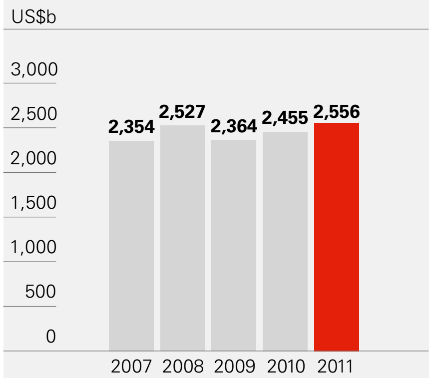
Core tier 1 ratio at 31 December



Assets
(reported basis)

US$2,556b

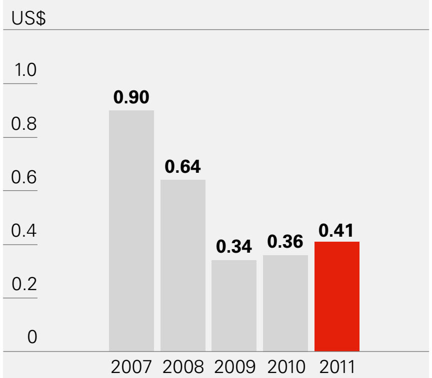
£1,651b
HK$19,852b



Dividends per ordinary share
(in respect of year)

US$0.41

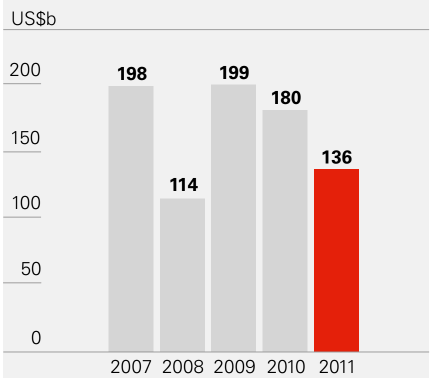
£0.26
HK$3.19



Market capitalisation
at 31 December

US$136b

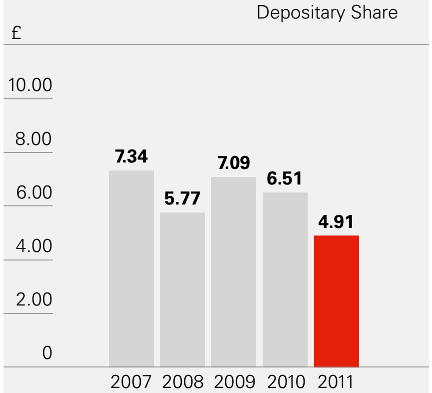
£88b
HK$1,059b



Share price
at 31 December

£4.91

HK$59.00
US$38.10 American Depositary Share



Operational highlights

- Launched strategy to reshape the Group, improve returns and position for growth.
- Strong performance in faster-growing regions, with revenue up 12% in Hong Kong, Rest of Asia-Pacific, Latin America, and the Middle East and North Africa, which now account for 49% of Group revenue.
- Record year in Commercial Banking, with profit before tax of US$7.9b, up 31%.
- Achieved sustainable cost savings of US$0.9b, with a strong pipeline of further savings.

Facilitating economic growth throughout the world

"HSBC has the people, the financial strength and the right strategic focus and values to do well for those who place their trust in us..."

Douglas Flint Group Chairman

Throughout its history HSBC has sought to facilitate economic growth, as it is through such growth that businesses flourish and individuals fulfil the aspirations they have for themselves and those close to them. The cover of this year's *Annual Review* illustrates a core element of HSBC's strategic direction – that is connecting markets by providing the financing and risk management products that facilitate trade and investment flows. In so doing, we help our customers to achieve their growth ambitions and generate economic returns for savers and investors.

The picture also illustrates the shift in emphasis towards the faster-growing markets that underpins HSBC's investment priorities. The port is Santos in Brazil, which is the largest container port in South America; the ship is from China, delivering heavy machinery. The Brazil-China trade corridor has been one of the fastest growing over the last decade with a compound annual rate of growth of around 30 per cent. China is now Brazil's largest trade partner representing 18 per cent of its total trade flows, versus 4 per cent in 2000.

HSBC entered Brazil in 1997 and since then has built its operations to generate pre-tax profits of US$1.2 billion in 2011, an increase of 19 per cent over the prior year. We estimate that we finance over 6 per cent of Brazil's total trade and some 9 per cent of its trade with China. In 2011 we were recognised as 'Financial institution of the year' by the Brazil-China Chamber of Commerce for having contributed most to the growth and development of the Brazil-China trade corridor.

The purpose of the above introduction is to highlight the fact that, notwithstanding the major uncertainties and risks concentrating minds in the advanced economies of Europe and the US, there are still attractive growth opportunities to pursue where our international network and strong balance sheet provide distinctive advantages.

Performance in 2011

In 2011 in our heartland of Asia, throughout the Middle East and in Latin America, we made good progress in developing customer business in line with the risk appetite endorsed by the Board. Largely driven by growth in lending in these faster-growing regions, our Commercial Banking business delivered a record performance. In Europe and the US we concentrated on supporting our core customer base, targeting trade services while constraining risk appetite within the financial sector. We also made significant further progress in working down our exit businesses in the US. The Group Chief Executive's Review expands upon the execution of our strategy during 2011.

The strong progress made on strategy execution was all the more marked when contrasted with the fragile confidence that pervaded the advanced economies of the world. Continuing uncertainties arising from the eurozone debt crisis contributed to credit demand remaining muted in Europe, while US recovery lagged expectations held earlier in the year. As investors crowded into the safest asset classes, market activity levels dropped markedly and prices of securities outside the favoured asset classes weakened. These factors markedly reduced trading revenues in the second half of the year.

Against the backdrop of the economic and financial market conditions described above, the Board considered the Group's performance in 2011 to be satisfactory in aggregate and strong in the faster-growing markets. Earnings per share rose by 26 per cent to US$0.92 and the Board approved a fourth interim dividend of US$0.14 per ordinary share, taking total dividends in respect of 2011 to US$0.41 per share, an increase of US$0.05 per share or 14 per cent. The Board confirmed its intention to continue to pay quarterly dividends during 2012 at the rate of US$0.09 per ordinary share in respect of each of the first three quarters, in line with 2011.

Notably, the capital strengthening required by regulatory reform is being successfully delivered while maintaining the strongest dividend paying record of any bank outside mainland China.

Total dividends declared during 2011 amounted to US$7.3 billion and in the last four years, that is since the financial crisis started, they have amounted to US$27.2 billion, making HSBC the second largest dividend payer in the FTSE 100 during this period.

Addressing a matter of public interest, the cost to shareholders of performance-related rewards made within our Global Banking and Markets business in 2011 and during the past four years amounted to some US$1 billion and US$4.7 billion, respectively. Pre-tax profit from Global Banking and Markets was, in aggregate, US$30 billion in the same four years, and represented the largest contribution, at 52 per cent, of Group pre-tax profits during that period.

At the end of 2011, total shareholders' equity stood at US$159 billion, up 24 per cent from its pre-crisis level of US$128 billion at the end of 2007. Over the same period, our balance sheet grew by only 9 per cent. The core tier 1 ratio at the end of 2011 stood at 10.1 per cent, in line with our target range.

As foreshadowed in last year's Statement, the UK government proceeded with its plan to raise £2.5 billion through a levy on the global balance sheets of UK domiciled banks. The cost to HSBC was US$570 million of which US$340 million related to non-UK banking activity. The levy, which is not tax deductible, is the equivalent of US$0.03 per ordinary share and, as indicated last year, would otherwise be available for distribution to shareholders.

Progress on regulatory reform

A number of important milestones were passed during 2011 on the regulatory reform agenda. In the UK, the Independent Commission on Banking (ICB) delivered its report in September and the government published its response in December. In the US, greater clarity on the Dodd-Frank legislation was delivered through a multitude of notices of proposed new regulation and four US financial regulatory agencies issued proposed uniform regulations that would implement the Volcker Rule, which aims to constrain major financial institutions from engaging in proprietary trading and most hedge fund and proprietary investment activities. The Basel Committee, in conjunction with the Financial Stability Board, set out its proposals to identify and increase capital requirements for Global Systemically Important Banks and most major jurisdictions published their proposals around recovery and resolution planning for major institutions. Europe continued to embed the Basel III proposals within a new draft Capital Requirements Directive (CRD IV), the European Banking Authority formally came into existence as the hub of financial regulatory bodies in Europe and, in the UK, HM Treasury published its proposals for a new approach to financial regulation and the replacement of the Financial Services Authority with a new supervisory structure, directed by the Bank of England.

Many topics remain subject to further debate including cross-border resolution protocols, the governance and operation of central counterparties, the prospective role of clearing systems and exchanges, the calibration of the proposed new liquidity framework, the definition and operation of proposed proprietary trading restrictions, the possible harmonisation and peer review of the calculation of the risk weights that drive capital requirements, a reassessment of the risk-free treatment of sovereign debt and some 22 follow-on workstreams are ongoing in the wake of the UK government's response to the ICB Report.

It is clear from the above that the industry will continue to bear a heavy burden of both time commitment and cost as it works with policymakers to finalise the regulatory reforms, including addressing the many inconsistencies within and extraterritorial dimensions of national rule-making. We are committed to all necessary constructive dialogue and support to speed the finalisation of these remaining issues. Our input will stress that it is critical that the reforms deliver a sustainable business model that can attract external economic capital. This is essential for the financial system to be able to contribute as fully as it should to the economic growth agenda which is being mandated by political leaders globally.

Board changes

We bid farewell at the upcoming AGM to two Directors who have given huge service to HSBC over many years and who will not stand for re-election.

Sir Brian Williamson has served on the Board of HSBC Holdings since 2002 and brought great insight and wisdom to the Board from a distinguished career in financial services, most notably in the areas of money and bond markets, clearing, exchanges and electronic trading platforms where he was a pioneer in establishing The London International Financial Futures and Options Exchange.

Gwyn Morgan has served on the Board of HSBC Holdings since 2006 and before that on the Board of HSBC Canada for some nine years. His vast experience of leading large international companies in the engineering and energy sectors brought a balanced industrialist’s perspective to Board discussions and debate.

We shall miss them both and thank them sincerely for their contributions over many years.

We are delighted to welcome two new faces to the Board. Joachim Faber and John Lipsky will join the Board on 1 March.

Joachim Faber stepped down from the Management Board of Allianz at the end of 2011 where he served latterly as CEO of Allianz Global Investors, one of the top five investment managers globally. He brings a wealth of experience from the perspective of the investor as well as in-depth knowledge of banking, insurance, finance and capital markets from previous roles in a long and distinguished career.

John Lipsky is one of the world’s best known and respected economists who most recently served as First Deputy Managing Director at the IMF from which he retired in November 2011. Over the last five years John has been one of the key links between macroeconomic policymakers and the financial community and brings to the Board an exceptional depth of knowledge and understanding of the macroeconomic and geopolitical issues that will shape the future of the global economy.

Fuller details of their background and experience are set out in ‘Your Board: Looking after your interests’ on page 28.

Brand and reputation

At HSBC we continue to think long term as we build business platforms and relationships that will create options for value creation in generations to come.

Tactically there are necessary difficult decisions to take in today’s subdued economic environment but these are always weighed against what is right for the long-term health of the business. Similarly when things go wrong, as they will from time to time, we judge ourselves, *inter alia*, against how we respond and how quickly we learn from the experience. Nothing is more important than our reputation.

It was a moment of great pride within the organisation when we were judged to be the most valuable banking brand in the world in the recent *Brand Finance® Banking 500 2012* report. This is the fourth time HSBC has headed the list in the last

Your Board of Directors. For details of your Directors’ background and experience, see pages 27-29.

five years. This recognition is a testament to the work of all my colleagues in building value for customers that translates to shareholder value.

At the same time, however, we reflect that in 2011 we continued to deal with legacy regulatory, legal and reputational issues which remind us that our good work can be destroyed by lapses of judgement or control. The settlement of claims around the historical selling of Payment Protection Insurance in the UK, the fine and compensation arising from the now closed NHFA Limited business, and ongoing regulatory and legal investigations in the US across a number of areas are all matters from which we need to learn to ensure they do not recur. The programme of values training which the Group Chief Executive is leading for all employees is but one measure to this end. We are truly sorry to all those who were adversely affected by our failings and to our shareholders for the reputational damage incurred.

Looking ahead

It is just over a year now since Stuart Gulliver and I took on our respective roles. During that time, the leadership team around

Stuart has grown in stature and cohesion and is, I believe, among the best in our industry. That team is supported strongly by talented colleagues whose engagement and commitment to the strategic priorities laid out before them is evident and enthusiastic. On behalf of the Board, I want to take this opportunity to thank them for their support and dedication. The uncertain economic and geopolitical backdrop will continue to raise challenges throughout 2012 and beyond. I am, however, confident that HSBC has the people, the financial strength and the right strategic focus and values to do well for those who place their trust in us, thereby meeting their expectations of us and contributing to the fulfilment of their aspirations and ambitions. That is what we exist to do.

Douglas Flint
Group Chairman

27 February 2012

1 Sir Simon Robertson, *Deputy Chairman*
2 Douglas Flint, *Group Chairman*
3 Stuart Gulliver, *Group Chief Executive*
4 Iain Mackay, *Group Finance Director*
5 Sandy Flockhart, *Chairman, Europe, Middle East, Latin America, Commercial Banking*
6 Rachel Lomax
7 James Hughes-Hallett
8 Gwyn Morgan
9 Joachim Faber
10 Laura Cha
11 Narayana Murthy
12 John Thornton
13 Sam Laidlaw
14 John Coombe
15 Rona Fairhead
16 Sir Brian Williamson
17 Marvin Cheung
18 John Lipsky
19 David Shaw, *Adviser to the Board*
20 Safra Catz
21 Ralph Barber, *Group Company Secretary*

How we manage our business

Our values, robust risk management, good governance and commitment to operating sustainably guide the way we manage our business and help us deliver value to our shareholders and customers.

Good governance

HSBC's governance structure is focused on delivering sustainable value to our shareholders. The strategy and risk appetite for HSBC is set by the Board, which delegates the day-to-day running of the business to the Group Management Board.

The Board has established non-executive committees including the Group Audit Committee, which oversees financial reporting matters; the Group Risk Committee, which oversees risk-related matters; the Group Remuneration Committee, which sets remuneration policy and senior executive pay; the Nomination Committee, which leads the process for Board appointments; and the Corporate Sustainability Committee, which advises on environmental, social and ethical issues.

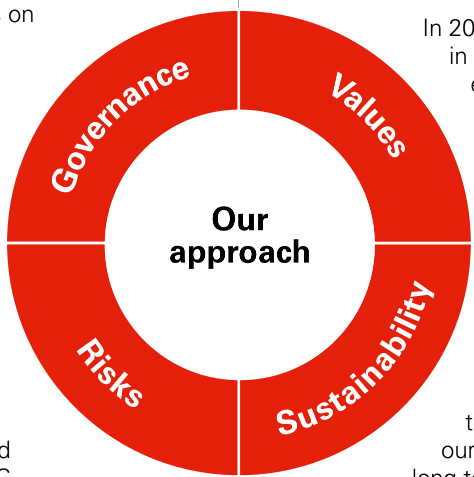
Global businesses and functions have established operating, financial reporting and management reporting standards for application throughout HSBC.

Strengthening our values

The role of HSBC's values in daily operating practice is significant in the context of the external financial services sector and the wider economy, with changes to regulatory policy, investor confidence and society's view of the role of banks. We expect all of our employees to act with courageous integrity in the execution of their duties by being:

- dependable and doing the right thing;
- open to different ideas and cultures; and
- connected with our customers, communities, regulators and each other.

In 2011, we took steps to embed our values in the business. We are ensuring that everyone who works for HSBC lives by these values and have made them a key part of every individual's annual performance review.



Managing our risks

As with all financial services organisations, we have to manage risks in our business. Our focus is on identifying, understanding and dealing with those risks in line with our agreed risk appetite. Robust risk governance and accountability is embedded across HSBC and the Group Risk Committee monitors the effectiveness of our overall risk management. The Board, advised by the Group Risk Committee, approves HSBC's risk appetite.

Our strong balance sheet and diverse lending portfolio are key factors in managing our risk profile. Our risk management framework also helps us to identify both current and emerging risks, and ensures that our portfolios remain aligned to our risk appetite. We then use this to carry out stress tests to evaluate the impact of those risks. For more details on how HSBC manages risk, see page 24.

A sustainable business

We believe that banks play a positive role in the economy and society by providing individuals and businesses with the financial services they need to meet their ambitions. We ensure our business is sustainable by taking a long-term view; valuing our employees; addressing the direct and indirect impact we have on the environment; and investing in the communities we serve.

We apply sustainability risk policies to our lending and work to support businesses involved in the transition to a low carbon economy. By managing the environmental impact of our own operations, we aim to reduce HSBC's annual employee carbon dioxide emissions by one tonne, from 3.5 to 2.5 tonnes by 2020. We also invest in community projects, donating US$96 million to educational, environmental and other initiatives across the world in 2011.

Focused on faster-growing markets and wealth creation

"Executing our strategy is the primary lever to improve the Group's performance. A substantial amount has been achieved during 2011…"

Stuart Gulliver Group Chief Executive

2011 was a year of change for HSBC as we articulated a clear strategy to become the world's leading international bank. We made significant progress in executing this strategy to reshape the Group and improve returns. First, we conducted a Group-wide portfolio review to improve our capital deployment and have now announced the disposal or closure of 16 non-strategic businesses during the year, and a further three in 2012. Second, we took action to improve our cost efficiency, achieving sustainable cost saving of US$0.9 billion. Third, and most importantly, we continued to position the business for growth, increasing revenues in each of the world's faster-growing regions, particularly in mainland China, India, Malaysia, Brazil and Argentina. Commercial Banking achieved record revenue and profits, helped by loan growth as well as growth in cross-selling from Global Banking and Markets. In Wealth Management we made modest progress towards our target of US$4 billion of incremental revenue over the medium term.

Executing our strategy is the primary lever to improve the Group's performance. A substantial amount has been achieved during 2011 but this will be a long journey with significant headwinds, so we are increasing the intensity of execution in 2012.

Group performance headlines

- HSBC's financial performance was resilient.
- Reported profit before tax was US$21.9 billion, up US$2.8 billion on 2010, including US$3.9 billion of favourable fair value movements on our own debt attributable to credit spreads, compared with a negative movement of US$63 million in 2010.

"We recorded a strong performance in each of the faster-growing regions…[which] led to record revenues in Commercial Banking."

- Underlying profit before tax was US$17.7 billion, down US$1.2 billion on 2010 due to higher costs which were partly offset by a significant improvement in loan impairment charges and other credit risk provisions.
- We recorded a strong performance in each of the faster-growing regions. Underlying revenues grew in Rest of Asia-Pacific by 12 per cent, in Hong Kong by 6 per cent and in Latin America by 13 per cent. The strong performance in these regions also led to record revenues in Commercial Banking.
- We achieved strong revenue growth in key markets including mainland China, India, Malaysia, Brazil and Argentina, driving increases in profit before tax.
- On an underlying basis, total revenues were broadly in line with 2010, despite the turmoil in the eurozone and its adverse effect on Credit and Rates revenue, combined with lower income in Balance Sheet Management and the continued reduction of our consumer finance portfolios in the US.
- As the process of internationalising the renminbi continued, we strengthened our leadership position with a bond clearing licence in mainland China and as the market leader in the offshore 'Dim Sum' bond market. In addition, Commercial Banking and Global Banking and Markets successfully completed our first global US dollar-renminbi cross-currency swap and we extended our renminbi capability to over 50 markets in all regions.
- Despite the eurozone sovereign debt concerns which dominated European market sentiment and depressed revenues in Global Banking and Markets, revenues grew strongly in over half of our business lines in Global Banking and Markets, including Equities and Foreign Exchange, and in Global Banking. This in part reflected the collaboration with Commercial Banking which has delivered more than US$500 million in incremental revenues.
- In Wealth Management we made modest progress towards our medium-term target of US$4 billion incremental revenue, with revenue growth of some US$300 million. Notably, we generated strong sales of insurance products in Hong Kong, Latin America and Rest of Asia-Pacific, while revenue from distribution of investment products to our clients and Global Asset Management was broadly unchanged, reflecting difficult market conditions, particularly in the second half of the year.
- Costs rose by 10 per cent, reflecting wage inflation in key markets and higher average full-time equivalent employee numbers for the year (although numbers have fallen since the first quarter), as well as an increase in significant items. These included restructuring costs (including the impairment of certain intangible assets) of US$1.1 billion, UK customer redress programmes of US$898 million and a bank levy introduced by the UK government of US$570 million, partly offset by a UK pension credit of US$587 million. The rise in costs was partially offset by US$0.9 billion in sustainable cost savings achieved so far in executing our strategy.
- As a result of these factors, the cost efficiency ratio worsened from 55.2 per cent to 57.5 per cent on a reported basis, and from 55.6 per cent to 61.0 per cent on an underlying basis.
- Our results continue to be adversely affected by the losses in the US consumer finance business which, on an underlying basis, were US$2.4 billion and US$2.2 billion in 2011 and 2010, respectively. We have agreed the sale of the profitable US Card and Retail Services portfolio with the remainder of the loss-making US consumer finance business being run down.

Our Group Management Board, chaired by the Group Chief Executive and comprising three executive Directors and 10 Group Managing Directors, is responsible for the day-to-day running of HSBC.

- Return on average ordinary shareholders' equity was 10.9 per cent, up from 9.5 per cent in 2010, reflecting the favourable movement on the fair value of our own debt.
- The Group's pre-tax return on risk-weighted assets for 2011 was 1.9 per cent, or 1.5 per cent on an underlying basis. Adjusting for negative returns on US consumer finance business and legacy credit in Global Banking and Markets, the remainder of the Group achieved a return on risk-weighted assets of 2.2 per cent in 2011 and 2.3 per cent in 2010.
- Dividends declared in respect of 2011 totalled US$7.3 billion, or US$0.41 per ordinary share, an increase of 14 per cent, with a fourth interim dividend for 2011 of US$0.14 per ordinary share.
- The core tier 1 ratio was 10.1 per cent at 31 December 2011, down from 10.5 per cent at 31 December 2010, reflecting an increase in risk-weighted assets due to the introduction of Basel 2.5 in Global Banking and Markets and growth in lending balances including those classified as held for sale. The growth in risk-weighted assets was notably in Commercial Banking, which included an increase in the risk-weighted assets of our mainland China associates.
- Profit attributable to ordinary shareholders increased by 27 per cent to US$16.2 billion, of which US$7.3 billion was declared in dividends in respect of the year. This compared with US$3.4 billion of variable pay awarded (net of tax) to our employees for 2011.

Progress on strategy

There are two major trends which are key to HSBC's future: the continuing growth of international trade and capital flows; and wealth creation, particularly in faster-growing markets. In May, we defined a new strategy for the Group to capitalise on these trends and connect customers to opportunities by building on our distinctive presence in the network of markets which generate the major trade and capital flows, capturing wealth creation in target markets and focusing on retail banking only where we can achieve profitable scale.

In a difficult operating environment this strategy is key to improving our performance and we remain focused on delivering our targets of a return on average shareholders' equity of 12-15 per cent and a cost efficiency ratio of 48-52 per cent by the end of 2013. We are executing the strategy by deploying capital more effectively, implementing

1 Stuart Gulliver, *Group Chief Executive and Chairman of Group Management Board*
2 Iain Mackay, *Group Finance Director*
3 Sandy Flockhart, *Chairman, Europe, Middle East, Latin America, Commercial Banking*
4 Marc Moses, *Group Chief Risk Officer*
5 Stuart Levey, *Chief Legal Officer*
6 Richard Bennett, *Group General Counsel*
7 Sean O'Sullivan, *Group Chief Operating Officer*
8 Alan Keir, *Global Head of Commercial Banking*
9 Samir Assaf, *Chief Executive, Global Banking and Markets*
10 Brian Robertson, *Chief Executive, HSBC Bank plc*
11 Paul Thurston, *Chief Executive, Retail Banking and Wealth Management*
12 Ann Almeida, *Group Head of Human Resources and Corporate Sustainability*
13 Peter Wong, *Chief Executive, The Hongkong and Shanghai Banking Corporation Limited*

"HSBC is well-positioned in the faster-growing markets and across international trade flows to benefit from these engines of global growth."

measures to improve our cost efficiency and positioning the business for growth. We have made significant progress in all of these three areas.

First, to ensure effective deployment of capital, we undertook a Group-wide review of our business, testing each part of the portfolio against our five filters framework. This looks at the strategic relevance of each country, and each business in each country, assessing their connectivity, economic development, profitability, cost efficiency and liquidity. As a result, we announced 16 disposals or closures in 2011 and a further three in 2012, including two large transactions in the US, the withdrawal from Georgia and the exit of Retail Banking and Wealth Management operations in Russia, Chile, Thailand and Poland. When completed, these disposals and closures should represent a reduction of around US$50 billion of risk-weighted assets and the transfer to the acquirers of approximately 12,000 full-time equivalent employees. We are continuing this process in 2012 and have identified a number of further transactions.

Second, to improve cost efficiency we achieved US$0.9 billion of sustainable savings. Our programmes to implement consistent business models and restructure global businesses and global functions progressed well. We are creating a leaner Group, removing layers of management to give staff greater responsibility, improve decision making and reduce bureaucracy. We have identified a strong pipeline of further sustainable cost savings which we believe will deliver at the upper end of our target of US$2.5 billion-US$3.5 billion of sustainable savings by 2013.

Third, we continued to position the business for growth, as outlined in the performance headlines.

We are increasing the intensity of strategy execution in 2012 and will provide a further update at our forthcoming Investor Strategy Day.

Growth in reported profit before tax

15%

Our purpose and values

HSBC is one of the world's largest banking and financial services organisations. We serve around 89 million customers and our network covers 85 countries and territories. With around 7,200 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to realise their ambitions.

We are putting a new emphasis on values at HSBC, so that our employees are empowered to do the right thing and to act with courageous integrity. We recognise that we have not always got this right in the past. The inappropriate advice given to customers of NHFA Limited was completely unacceptable. We are profoundly sorry about what happened and are committed to standing fully behind our customers. This case has reinforced our determination to address legacy issues in HSBC.

Over the past year we have made our values more explicit to ensure we meet the expectations of society, customers, regulators and investors. Those values are that we are dependable, open to different ideas and cultures and connected to customers, communities, regulators and each other. We are ensuring that everyone who works for HSBC lives by these values and have made them a key part of every individual's annual performance review. By setting the highest standards of behaviour our aim is that all of our employees and customers can be proud of our business.

Outlook

In 2012, notwithstanding the macroeconomic, regulatory and political uncertainties which we believe will persist, we expect continued strong growth in the dynamic markets of Asia, Latin America and the Middle East, although at a more moderate pace than in 2011, and that mainland China will achieve a soft landing. We believe that trade and capital flows between emerging areas of the world will also continue to grow, and could increase tenfold in the next 40 years.

As these results demonstrate, HSBC is well-positioned in the faster-growing markets and across international trade flows to benefit from these engines of global growth.

In 2011 we generated a return on average ordinary shareholders' equity of 10.9 per cent compared with 9.5 per cent in 2010. The strength of our position gives us confidence that by the end of 2012 we will have developed a clear trajectory towards meeting our target of 12-15 per cent by the end of 2013.

Finally, I am pleased to report we had good results in January.

Stuart Gulliver

Stuart Gulliver
Group Chief Executive

27 February 2012

Our Strategy

In May 2011, HSBC set out a new strategy to investors, employees and other stakeholders. Our objective is to deliver a compelling vision for the long-term direction of the Group and to take action in the short term to deliver a better return for our shareholders.

Our vision

To be the world's leading international bank

Alignment to long-term trends *Our strategy is aligned to two long-term trends:*

1. Financial flows

The world economy is becoming ever-more connected. Growth in world trade and cross-border capital flows continues to outstrip growth of gross domestic product. Financial flows between countries and regions are highly concentrated. Over the next decade, we expect 35 markets to represent 90 per cent of world trade growth and a similar degree of concentration in cross-border capital flows.

2. Economic development

By 2050, we expect the size of economies currently deemed 'emerging' will have increased five-fold, benefiting from demographics and urbanisation, and they will be larger than the developed world. By then, 19 of the 30 largest economies will be markets that are currently described as 'emerging'.

Based on these long-term trends and our competitive position, our strategy has two parts:

1. Network of businesses connecting the world

HSBC is ideally positioned to capture the growing international financial flows. Our franchise puts us in a privileged position to serve corporate clients as they grow from small enterprises into large and international corporates, and personal clients as they become more affluent. Access to local retail funding and our international product capabilities allows us to offer distinctive solutions to these clients in a profitable manner.

2. Wealth management and retail with local scale

We will leverage our position in faster-growing markets to capture social mobility and wealth creation through our Wealth Management and Private Banking businesses. We will only invest in retail businesses in markets where we can achieve profitable scale.

Implementation of our strategy *This relies on actions across three areas:*

1. Capital deployment (five filters)

We are improving the way we deploy capital as part of our efforts to achieve our targeted return on equity of 12 to 15 per cent over the business cycle. We have introduced a strategic and financial framework assessing each of our businesses on a set of five strategic evaluation criteria: international connectivity, economic development, profitability, cost efficiency and liquidity. The results of this review determine whether we invest in, turn around, continue with or exit businesses.

2. Cost efficiency (four programmes)

We have launched four programmes to achieve sustainable cost savings of between US$2.5 billion and US$3.5 billion over the next three years, resulting in a leaner and more values-driven organisation: 1) implement consistent business models; 2) re-engineer operational processes; 3) streamline IT; and 4) re-engineer global functions. Sustainable cost savings are intended to facilitate self-funded growth in key markets and investment in new products, processes and technology, and provide a buffer against regulatory and inflationary headwinds.

3. Growth

We continue to position HSBC for growth. We are increasing our relevance in fast-growing markets and in wealth management, and improving the collaboration between our international network of businesses, particularly between Commercial Banking and Global Banking and Markets.

Key Performance Indicators

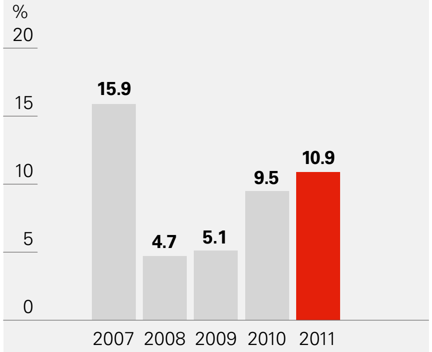
Monitoring our performance

The Board of Directors and the Group Management Board – our executive management committee responsible for the day-to-day running of the Group under the Board's authority – monitor HSBC's progress against its strategic objectives. Progress is assessed by comparison with our strategy, our operating plan and our historical performance using both financial and non-financial measures.

Set out on these two pages are our high-level financial and non-financial key performance indicators.

Strategy Capital deployment: improving the way we deploy capital

Return on average ordinary shareholders' equity

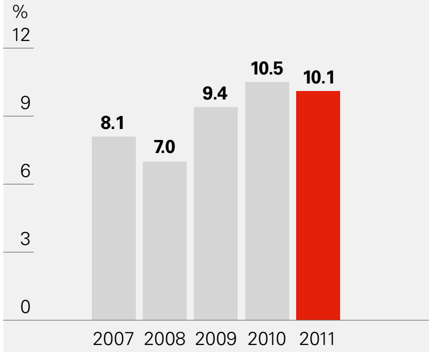


Measure: (percentage) profit attributable to shareholders divided by average ordinary shareholders' equity.

Target: to maintain a return in the medium term of between 12% and 15%.

Outcome: return on average ordinary shareholders' equity was below the target range, but 1.4 percentage points higher than 2010.

Core tier 1 capital



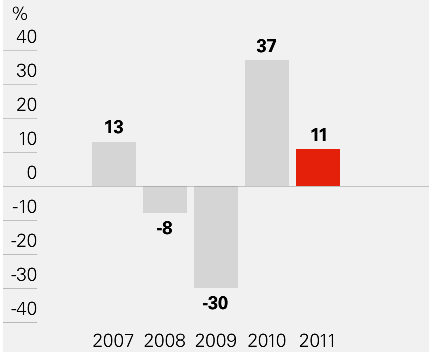
Measure: (percentage) core tier 1 capital comprising shareholders' equity and related non-controlling interests less regulatory deductions and adjustments.

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

Outcome: the decrease in core tier 1 capital to 10.1% reflected an increase in risk-weighted assets due to growth in lending balances, including those held for sale and an increase in the risk-weighted assets of our mainland China associates, as well as the introduction of Basel 2.5.

Strategy Growth: continuing to position ourselves for growth

Risk-adjusted revenue growth
(2011: underlying growth 2%)

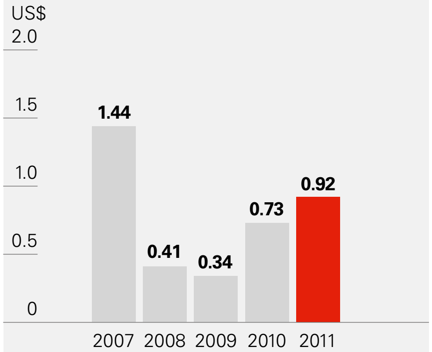


Measure: (percentage) increase in reported net operating income after loan impairment and other credit risk charges since last year.

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

Outcome: reported risk-adjusted revenue increased primarily due to favourable movements on the fair value of own debt due to credit spreads and, on an underlying basis, due to lower loan impairment charges.

Basic earnings per ordinary share



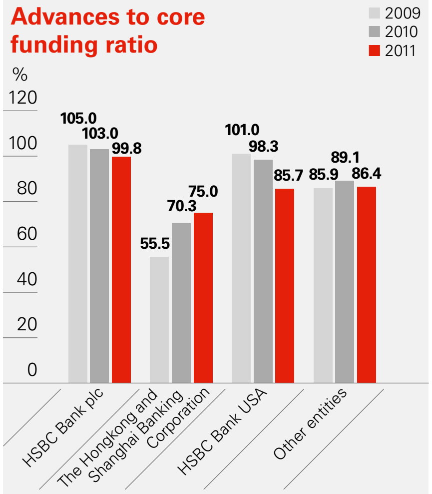
Measure: (US$) level of basic earnings generated per ordinary share.

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

Outcome: Earnings per share increased in 2011, reflecting significant favourable movements on the fair value of own debt due to credit spreads which resulted in an increase in reported profits.

Strategy Cost efficiency: a lean and values-driven organisation

Advances to core funding ratio

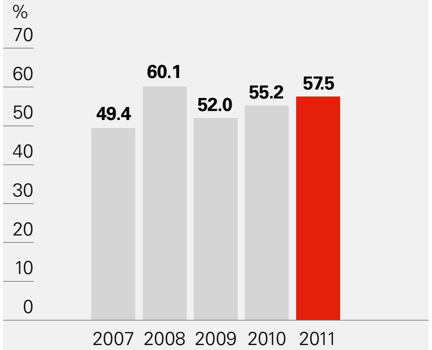


Measure: loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year.

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

Outcome: the strong funding position of The Hongkong and Shanghai Banking Corporation Limited has allowed us to take advantage of loan growth opportunities during the year, while reduced lending in the US resulted in further strengthening of our funding position.

Cost efficiency
(2011: underlying cost efficiency 61%)

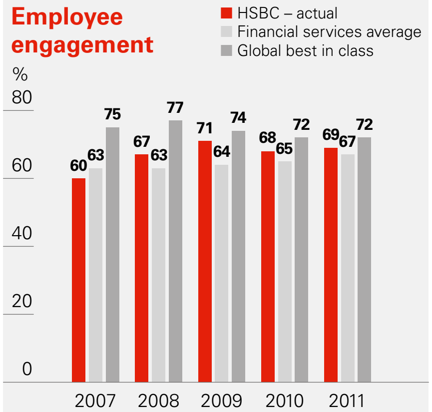


Measure: (percentage) total operating expenses divided by net operating income before loan impairment and other credit risk provisions.

Target: 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 to support future business growth.

Outcome: on a reported and an underlying basis, the ratio was outside the target range, in part due to notable items including restructuring costs, customer redress programmes, and a bank levy introduced by the UK government, but also due to an increase in staff costs in key markets and higher average full-time equivalent employee numbers.

Employee engagement

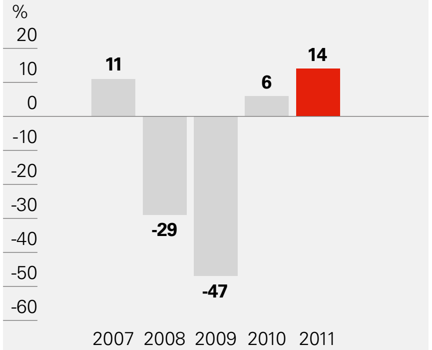


Measure: (percentage) measure of employees' emotional and rational attachment to HSBC – a combination of advocacy, satisfaction, commitment and pride.

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

Outcome: employee engagement behind global best in class. Improvement in 2011 despite a challenging environment.

Dividends per ordinary share growth

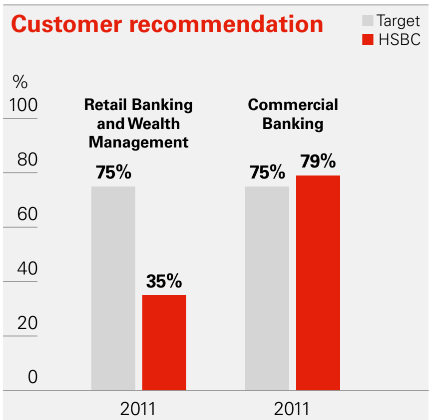


Measure: (percentage) increase in dividends per share since last year, based on dividends paid in respect of the year to which the dividend relates.

Target: to deliver sustained dividend per share growth.

Outcome: dividends per share increased by 14%.

Customer recommendation

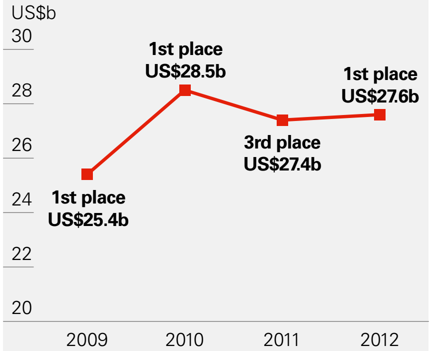


Measure: a survey of retail banking and business banking customers, using a metric of customer recommendation to score performance. We benchmark our performance against key competitors and set targets for performance based on our peer group of banks.

Target: for 75% of selected markets to meet their customer recommendation targets.

Outcome: Commercial Business Banking exceeded its target. Retail Banking and Wealth Management experienced a challenging environment and only met its target in 35% of the markets. In the fourth quarter, 77% of the markets met the target and, at year-end, it ranked first in five of the six markets surveyed in Asia.

Brand value



Measure: in 2011, we moved our brand measure to the Brand Finance valuation method as reported in *The Banker* magazine. This methodology gives us a more complete measure of the strength of the brand and its impact across all global businesses. It is an independent measure and is publicly reported.

Target: a top 3 position in our banking peer group.

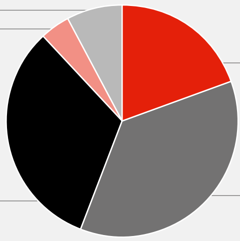
Outcome: HSBC's brand value in 2009 followed a sharp drop in industry brand values in 2008-09 during the financial crisis. The subsequent increase reflected a general rise in values, with HSBC's brand remaining one of the strongest in the sector.

Global businesses

Our four global businesses are responsible for developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies jointly with our geographical regions within HSBC's overall strategy.

Contribution to profit before tax (reported basis)

US$21,872m



Retail Banking and Wealth Management

Overview and highlights of 2011

HSBC provides retail banking products and services, ranging from loans and mortgages to savings and current accounts, to over 85 million customers across the world.

In 2011, our profit before tax was US$4.2 billion, an increase of 6 per cent on 2010, reflecting strong growth in the Rest of Asia-Pacific and Latin America regions. We continued to expand our range of wealth management products and deploy new technology to improve core banking services, including extending our mobile banking service.

Strategic focus

Our strategy is to develop world class wealth management products for retail customers; leverage our global expertise in retail banking; and manage our portfolio to drive superior returns. This means we will provide retail banking services in markets where we have significant presence or where there is an opportunity to build our business and focus on faster-growing economies, which are seeing increased wealth creation.

Commercial Banking

Overview and highlights of 2011

Commercial Banking serves 3.6 million customers ranging from sole traders to major corporations in 65 countries.

We achieved a record profit before tax of US$7.9 billion, with strong results in faster-growing regions and our trade business. Our international connectivity helped us increase cross-border referrals by 12 per cent and to develop new renminbi products. We made it easier for customers to do business through our strong partnership with Global Banking and Markets and our other global businesses; rolling out a globally consistent business model across all Commercial Banking countries; and extending mobile and internet banking.

Strategic focus

We connect international businesses to opportunities from increasing trade and capital flows. Our focus is on faster-growing markets, and on connecting revenue and investment flows to developed markets. We will continue to enhance collaboration between Commercial Banking and Global Banking and Markets and to focus on capturing the growth in international small and medium-sized businesses.

Middle East: A Premier banking service
See pages 20-21

Latin America: Financing 'South-South' trade
See pages 22-23

Global Banking and Markets

Overview and highlights of 2011

Global Banking and Markets provides services to major government, corporate and institutional clients, and private investors worldwide. Profit before tax was US$7.0 billion, 23 per cent lower than in 2010, reflecting difficult trading conditions, especially in Europe.

We continued to invest in our product offerings and e-commerce platforms to provide clients with enhanced and more integrated products and services. We saw strong growth from our cross-border desks that help customers seize opportunities from growing 'South-South' trade – linking Asia to the Middle East and Latin America – and from improved foreign exchange services.

Strategic focus

We aim to be a leading global wholesale bank that maximises the value of HSBC's connectivity and extensive distribution network. We tailor our existing services to meet clients' needs and provide more integrated products and services. This is reinforced by enhanced collaboration with other parts of the business, especially Commercial Banking.

Unless otherwise stated, our performance is presented and discussed on pages 14-17 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 where the net result of such movements will be zero upon maturity of the debt, all of which distort year-on-year comparisons.

Global Private Banking

Overview and highlights of 2011

Global Private Banking provides specialist and personalised services to 80,000 high net worth individuals across the world. Profit before tax was US$944 million, 11 per cent lower than 2010, reflecting higher operating expenses.

During the year, we invested in front-line staff and systems in faster-growing markets. New renminbi-based products, alternative investment services, and trust and estate planning products were also developed. In line with our strategy, we closed our Private Banking operations in Russia, sold our business in Japan, and took further steps to improve operational effectiveness.

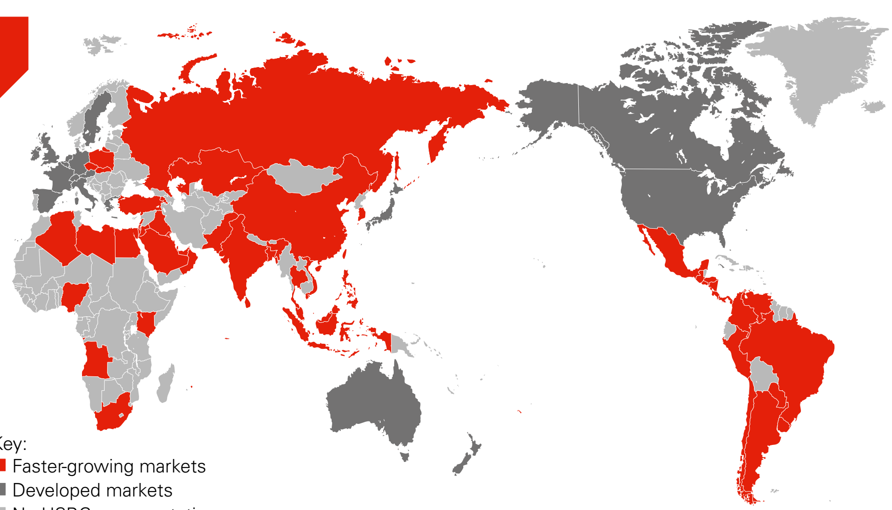
Strategic focus

We are focused on expanding our business in faster-growing markets and on utilising the connections between our different businesses to provide the full range of services to meet our clients' needs. We aim to increase our managed assets and build on our expertise in alternative investments, foreign exchange and trust and estate planning.

Asia: Helping customers to expand in faster-growing markets
See pages 18-19

HSBC at a Glance

Regions

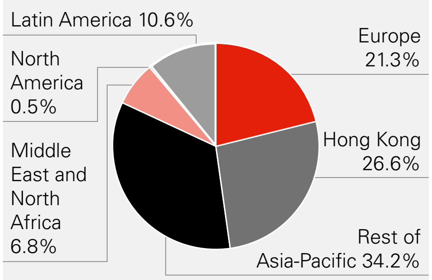


Key:
- Faster-growing markets
- Developed markets
- No HSBC representation

Our six geographical regions share responsibility for executing the strategies set by the global businesses. They represent HSBC to stakeholders, such as clients, regulators and employees. They allocate capital, manage risk appetite, liquidity and funding by legal entity, and are accountable for profit and loss performance in line with the global business plans.

Contribution to profit before tax
(reported basis)

US$21,872m



Europe

Pre-tax profits from our European operations were US$1.7 billion, 61 per cent lower than in 2010 as turmoil in the eurozone sovereign debt markets resulted in markedly lower revenues in Global Banking and Markets. Despite challenging conditions, we continued to develop our business. We enhanced our Wealth Management business through the launch of the Global Investment Centre that allows investors to trade funds online. In the UK, we increased mortgage balances and our share of new mortgage lending, and continental Europe saw strong growth in lending and deposits. The number of international business customers increased significantly, reflecting our strength in trade-related business, including renminbi services. We continued to prepare for the implementation of regulatory reform, which is likely to have an impact on the structure of our business in the UK.

Hong Kong

Our operations in Hong Kong made pre-tax profits of US$5.8 billion, an increase of 5 per cent. We maintained our leading position in a number of key products including residential mortgages, life insurance and cards. We also maintained market leadership in both Hong Kong dollar and offshore renminbi bond issuance. Trade revenues increased as we continued to capture cross-border business, especially with mainland China. Four new business banking centres and a new China corporate team increased our services to Chinese companies that want to expand internationally. The strength of our Global Banking and Markets business was underlined by our involvement as bookrunner in six of the 10 largest initial public offerings in Hong Kong.

Rest of Asia-Pacific

Pre-tax profits in the region were US$7.3 billion, compared with US$5.9 billion in 2010, an increase of 23 per cent. We have a presence in 23 countries and are the leading foreign bank in mainland China by network size where the operating profit from our operations more than doubled. During the year, we increased our renminbi trade settlement services to 24 cities in China, and cross-border referrals between China and the rest of the world grew by 9 per cent as we used our international network to connect customers to new opportunities. In Malaysia, we expanded our branch network and saw strong growth in commercial lending. Mortgage lending balances also rose, especially in Singapore and Australia, and customer deposits increased across most of the region.

HSBC's international expertise helped a major Indian conglomerate to acquire the Indonesian market leader in the manufacture of baby wipes.

Our Premier proposition is ideal for internationally mobile customers.

Middle East and North Africa

Despite the challenges of political unrest in many countries in 2011, we saw strong growth in the region. Our operations achieved pre-tax profits of US$1.5 billion, an increase of US$527 million, or 57 per cent. We reconfigured our branch network in five countries in line with our strategy and focused on developing our wealth management services. We implemented new technologies to improve services and successfully launched mobile banking in the United Arab Emirates, Oman, Bahrain and Jordan. We increased market share in trade-related activities and entered into partnerships with a number of free trade zones to provide improved access to banking services for internationally orientated small and medium-sized enterprises.

North America

Our business continued to be affected by the slow pace of recovery in the US. Loss before tax was US$870 million, compared with a profit before tax of US$285 million in 2010. This reflected lower profit before tax in Global Banking and Markets, and lower revenue in the Retail Banking and Wealth Management portfolios as lending balances reduced. These factors were partly offset by lower loan impairment charges and other credit risk provisions, which reduced to their lowest level since 2006. We made significant progress in executing our strategy for North America, including announcing the sales of our card and retail businesses and of 195 non-strategic branches. We focused on expanding our wealth management and Premier services, and increased the number of Commercial Banking relationship managers to support companies that trade and invest internationally.

Latin America

Our operations in Latin America are primarily based in Brazil, Mexico, Argentina and Panama. Our profits in the region increased by 21 per cent, to US$2.2 billion. To support further growth, we recruited new relationship managers in our Commercial Banking business in Brazil and opened 14 new branches in Argentina. This will build on the increases in our customer base and in lending balances that we saw in 2011. We also benefited from increased collaboration between our Commercial Banking and Global Banking sales force and our ability to provide international services to the region's growing number of global corporate businesses.

São Paulo, where HSBC has over 130 branches and offices, is South America's largest city and Brazil's financial and commercial capital.

Asia

Helping customers to expand in faster-growing markets

HSBC helped the Godrej Group, a leading Indian conglomerate, expand through a key acquisition in the rapidly growing Indonesian consumer products market

From India to Indonesia

The Godrej Group is an Indian conglomerate in consumer goods, office furniture, chemicals, agribusiness and real estate, with a turnover of US$3.3 billion and operations in more than 60 countries. An HSBC Commercial Banking customer since 1976, Godrej has an ambitious international growth strategy to expand in faster-growing markets. It acquired several leading consumer products manufacturing and distribution companies, which produce and distribute household and personal products ranging from insecticides to baby wipes.

In 2010, the Godrej Group acquired PT Megasari Makmur, the market leader for most of its products, including a popular brand of baby wipes, which are made in a factory in Bogor (bottom right), south of Jakarta, and sold throughout the country. The main retail outlets are a major chain of convenience stores located in residential and

commercial districts in both urban and rural centres (bottom left).

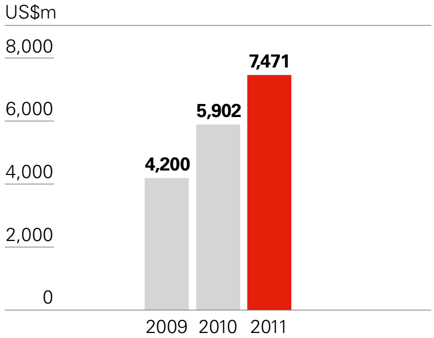
The acquisition has enabled Godrej to build its business in a country with a population of 245 million – the fourth most populous in the world – which offers the company significant growth potential. HSBC has worked with the Godrej Group for over 35 years and has had a presence in Indonesia since 1884. This means we were able to use our knowledge of the company, our experience in Indonesia, and our international connections to act as sole adviser, mandated lead arranger, underwriter and bookrunner for this multi-million dollar acquisition.

We have also helped Godrej to streamline their cross-border trade transactions and develop innovative supply chain financing structures. Over the years, our international connectivity has been instrumental in helping Godrej to grow in other parts of Asia, in the Middle East and Latin America.

Growth in reported profit before tax

27%

Asia-Pacific reported profit before tax
(excluding Hong Kong)



Awards in 2011

- 'Best offshore renminbi bond house': *International Financing Review* Asia Awards 2011
- 'Best investment bank' 2011: *Finance Asia*

Middle East

A Premier banking service

HSBC was founded in 1865 to finance East-West trade, helping businesses to operate across borders. In an increasingly interconnected world, individuals too have a requirement for international banking services. HSBC Premier provides our personal customers with the flexible banking services they need, wherever they are in the world

This page: Dubai International Airport. Page 21: (bottom) Burj Khalifa area, Dubai Old Town; (top) Dubai Mall, with Burj Khalifa in background.

Global View and Global Transfers for our international customers

A typical Premier customer may have worked for marketing companies in the UK and United Arab Emirates, and set up his own marketing consultancy to take advantage of the fast-growing markets of the Middle East. He lives in Dubai where his consultancy is based, but travels frequently to his branch office in London, to Jersey and to other cities in continental Europe to meet clients.

In a typical scenario, after client meetings in London, he flies back overnight to Dubai International Airport and then takes a taxi to the Burj Khalifa area of Dubai Old Town or Dubai Mall to see a local client.

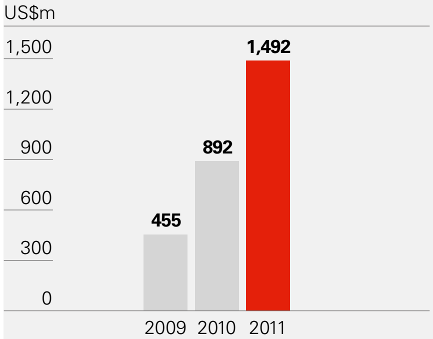
Premier is the ideal proposition for such a customer. From the convenience of his office or home, with a single login, he can access his Premier account with HSBC Bank Middle East in Dubai as well as, through the Global View platform, check the balances in his other two accounts, held with separate HSBC entities in London and Jersey – all on the same screen. The Global Transfers service on Global View allows him to transfer funds between his accounts or make international payments in real time from anywhere in the world.

HSBC's Premier customers across the globe benefit from world class banking services that suit their lifestyle.

Growth in reported profit before tax

67%

Middle East and North Africa reported profit before tax



Awards in 2011

- 'Best trade finance bank in the Middle East and North Africa' 2011: *Global Trade Review*
- 'Best international Islamic bank' 2011: *Euromoney*

Financing ‘South-South’ trade

Financing trade has always been at the heart of HSBC's business. With our presence in all of the major developed and faster-growing markets, we are well-positioned to provide the financing and risk management products to facilitate trade around the world

Growing economic ties

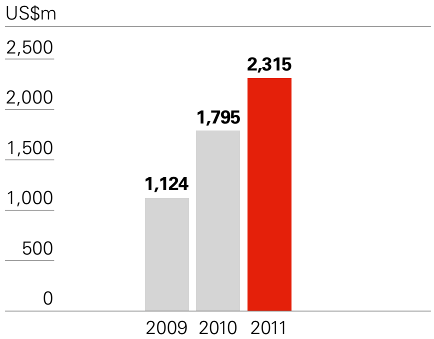
Just as trade between the developed nations grew exponentially in the 1950s and 60s, we expect that the 21st century will see a boom in trade between the emerging nations. Trade and capital flows between these emerging regions could increase tenfold in the next 40 years and the development of these 'South-South' trading routes is already transforming the global economy.

One of the fastest-growing South-South trade corridors is between China and Brazil. Fuelled by demand for commodities in China and tremendous infrastructure growth in both countries, trade flows rose by 31 per cent in 2011, reaching US$77 billion. As a result, China is now Brazil's largest trading partner. Much of this busy two-way trade in commodities and many other goods passes through the Brazilian port of Santos, South America's largest container port (left).

HSBC's deep roots in China and expertise in Brazil enable us to support our customers at both ends of this trading route. In 2010, we established Brazil-China trade desks in São Paulo and in Shanghai.

In 2011, HSBC facilitated US$7.7 billion of trade flows between the two countries or 10 per cent of the total. One illustration of this was the establishment of a US$40 million trade solution for a large Brazilian telecommunications company with its top 20 Chinese suppliers to enable it to buy more from China. HSBC was also recently mandated by a major Brazilian subsidiary of a US white-goods manufacturer as the preferred trade bank for its top suppliers in China. Out of 6,250 Brazilian companies which use trade solutions with their Chinese counterparts, HSBC in Brazil banks 3,182 of them – a market share of over 50 per cent.

Latin America reported profit before tax



Growth in reported profit before tax

29%

Managing risk

All of HSBC's activities involve some degree of risk and our risk appetite framework enables us to put in place measures to manage and mitigate those risks, including stress tests to evaluate the impact of emerging issues. This approach is approved by the Group Risk Committee and the Board.

During 2011, we continued to maintain a conservative risk profile in a challenging financial and economic environment by reducing exposure to the most likely areas of stress, including sovereign debt. Our strong capital and liquidity position, diverse lending portfolio, and broad range of global businesses also continued to help us manage those risks effectively.

Macroeconomic and geopolitical risk

We face the risk of eurozone sovereign and counterparty defaults and a remote, but plausible, risk that a member nation will leave the eurozone. The geopolitical risk is from political instability in the Middle East.

Mitigation: We have actively managed the risk of sovereign defaults through reduction in our eurozone exposures. We have also prepared and tested detailed operational contingency plans to deal with a country leaving the eurozone. We are managing geopolitical risk through increased monitoring, and adjusting country exposures where appropriate.

Regulatory risk

Increasing regulatory and supervisory requirements, including Basel III/ CRD IV; the recommendations of the Independent Commission on Banking and the bank levy in the UK; and the Volcker Rule may have a material impact on our business.

Mitigation: We are working closely with governments and regulators to ensure that the new requirements are appropriate and can be implemented effectively. Our capital and liquidity plans are being assessed to reflect the potential impact of these changes.

Liquidity and funding risk

This is the risk that we do not have sufficient financial resources to meet our obligations if there is a mismatch in the timing of cash flows.

Mitigation: Our liquidity framework is designed to allow us to withstand very severe liquidity stresses and to adapt to changing business models, markets and regulations. We manage these risks by maintaining very strong liquidity positions and ensuring that we rely on diverse, reliable and stable sources of funding.

Credit risk

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

Mitigation: We take a responsible approach to lending to customers and ensure our portfolios are diversified across asset classes and countries. During 2011, the credit quality of our personal lending portfolios improved and we also continued to reduce our sovereign and financial institution counterparty credit risk in weaker European countries.

Market risk

This is the risk that movements in market factors, such as foreign exchange rates, commodity prices, interest, credit spreads and equity prices, will reduce income or our portfolio value.

Mitigation: We use a range of tools, such as stress-testing and sensitivity measures, to manage and control our exposure to these risks. In this way, we optimise the return on risk in a way that is consistent with our position as one of the world's largest financial services organisations.

Operational risk

We face a number of operational risks, including the execution of our strategy; internet crime, fraud and information security. Managing the business at a time of significant change also poses an operational risk.

Mitigation: We continue to improve our operational risk management framework to provide business areas with a clear view of these risks and mechanisms to track action plans to manage these risks. These include increased monitoring, focused management attention and enhanced controls.

Insurance risk

This risk is that the costs of acquiring and administering an insurance contract and the claims and benefits may exceed the premiums received.

Mitigation: We manage this risk by applying controls and processes to each insurance product, including underwriting controls, asset and liability matching, and using third-party reinsurers.

Reputational risk

This risk relates to potential damage to our reputation from failure to meet the expectations of society, customers, regulators or investors.

Mitigation: We have made our values more explicit to help our employees do the right thing and act with courageous integrity. We continue to address areas where HSBC has fallen below the standards we have set and to resolve regulatory and compliance issues.

Making a positive contribution

At HSBC, we know how important it is that banks play a positive role in the economy and society at large. The fundamental role that banks play in intermediating between savings and lending is essential to economic growth. Throughout the world, access to financial services helps businesses to flourish and economies to develop. Those services help individuals provide for their families; put a roof over their heads; and live a comfortable retirement. We also help companies to grow and prosper by enabling them to access debt and equity, as well as providing them with a wide range of products that facilitate trade. In this way, we connect our customers to the opportunities that will help them realise their ambitions.

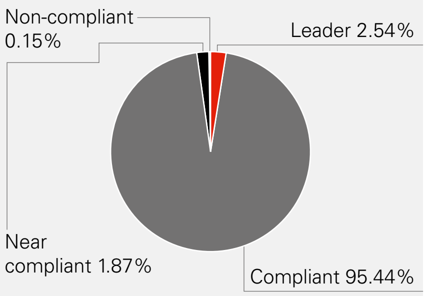
A sustainable bank must be run with a long-term view; it must be consistently profitable, but not be solely concerned with making a profit. Doing banking well is about providing our customers with the products and services they need and want; valuing our employees; paying taxes and duties in the regions where we operate; understanding and managing the direct and indirect impact we have on the environment; and investing in the future of our communities. Only then do we have a sustainable business, able to attract and retain the capital we need from our shareholders to continue to operate.

This approach has contributed to HSBC's signature financial strength, which means we are able to deliver value to our shareholders and make a positive contribution to the wider economy. In 2011, HSBC paid US$21.2 billion to our employees, US$8.3 billion to shareholders, and US$8 billion in taxes around the world.

Supporting our customers

During 2011, we continued to provide the products and services that our customers need to manage in tough

Customer compliance with HSBC's sustainability risk policies 2011



Distribution of economic benefits

		2009	2010	**2011**
Net cash tax outflow[1]	US$b	5.2	5.8	**8.0**
Distributions to shareholders and non-controlling interests	US$b	6.5	7.1	**8.3**
General administrative expenses including premises and procurement	US$b	13.4	15.2	**17.5**
Employee compensation and benefits	US$b	18.5	19.8	**21.2**

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

economic times. This includes our support for the small and medium-sized enterprises (SMEs) that play a critical part in economic growth. In 2011, our global lending to SMEs was up 10 per cent from 2010. Lending to SMEs in the faster-growing economies of Asia, Latin America and the Middle East increased by 22 per cent in 2011. In the UK, we also exceeded our Project Merlin lending intentions, agreed with the government, by providing £11.9 billion in new lending to SMEs.

We maintained our support for individuals and households in managing the effects of the continued economic downturn. Our Money Management Team, which offers customers advice and guidance, has provided solutions for over 70,000 UK customers since it was established in 2009. In 2011, the team helped 20,000 customers deal with financial challenges.

As one of the largest banking and financial services organisations in the world, HSBC understands that one of the best ways we can contribute to a more sustainable world is through the companies we lend to, and what they do. Every business has to recognise the potential impact of its activities on the environment or society and we use our sustainability risk policies to help our customers manage those impacts appropriately.

It is nearly a decade since we issued our first sustainability risk policy. Today, we have policies covering sustainability risks across forest land and forest products; mining and metals; chemicals; freshwater infrastructure; and energy. We have a defence equipment policy, which sets out our approach to companies involved in weapons manufacturing, which includes a no-lend policy to companies with any involvement in the manufacture of cluster bombs.

In 2011, 41,000 customers were assessed against our sector policies. At the end of the year, only 0.15 per cent of our customers were non-compliant with our policies. It is always our preference to advise and encourage clients who are not compliant to make the necessary improvements to enable them to meet our criteria. If, despite our efforts, clients demonstrate no progress towards compliance, we will end the relationship.

By taking this approach, HSBC ensures our customers are helped and supported in making improvements so that negative impacts on society and the wider environment are reduced.

HSBC also contributes to a more sustainable world through supporting the international growth of climate business, which we define as the goods and services that will thrive in the transition to a low carbon economy. We have established central and regional climate business teams who explore opportunities with customers. Our international connectivity also means we can support cross-border climate business projects, such as our provision of financing for a Japanese client to build a solar power plant in Spain.

Improving our efficiency

As a major global company, we have a duty to ensure we are running our business in an efficient way. HSBC has around 7,200 offices; an IT infrastructure which supports four global businesses looking after 89 million customers; and we spend US$17.5 billion on our supply chain. Managing the environmental impact of these operations, and asking our suppliers to do the same, is a key part of making our business more sustainable. As a result of this work, in 2011 we reduced paper use by 14 per cent and energy use in our data centres by 8 per cent.

HSBC has been carbon neutral since 2006, when we took the decision to buy carbon credits to offset our carbon emissions. Last year we decided that, from 2012, the business will no longer be carbon neutral. This is because regulation and international carbon markets have not developed the way we thought they would. Instead, HSBC will use the money we previously spent on buying offsets to invest in new ways of permanently reducing the energy the Group uses. In addition, we have set 10 goals for the period to 2020 covering all areas of our environmental efficiency. By this time, we want to have reduced our annual employee carbon dioxide emissions by one tonne, from 3.5 to 2.5 tonnes.

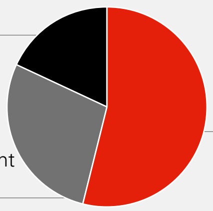
Supporting communities

Our investment in communities across the world is one way we can help increase access to opportunities for some of the world's poorest people. In 2011, HSBC donated US$96 million to community investment projects that focus primarily on **education** and the **environment**.

Our education programmes and partnerships help young people to reach their potential, regardless of background,

Total community investment donations 2011

US$96m



across three broad themes: access to education; skills and entrepreneurship; and discovering cultures and the natural world. In 2011, we invested US$52 million in these education projects.

Last year, we pledged a further US$15 million, five-year investment to Future First, a project we established with SOS Children's Villages in 2006. This project provides some of the world's most marginalised and impoverished young people with access to education and support. Since the project began, we have helped nearly 542,000 children in 55 countries, through US$12 million of donations.

Every year, HSBC funds more than 17,000 scholarships and bursaries for young people across the world. In 2011, we announced funding of more than £12 million over five years to help over 200 financially disadvantaged students attend leading schools and universities in England. Through the Chevening Scholarships programme in the 2011-12 academic year, we also supported 31 students from 18 countries to study in the UK.

HSBC supports environmental projects because we understand that continued economic development is having a significant impact on the world's eco-systems and resources, which are essential to enable businesses and communities to flourish. In 2011, we spent US$27 million on these projects.

The HSBC Climate Partnership, a groundbreaking five-year US$100 million environmental programme with The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF, came to an end in 2011. Thanks to this Partnership, 32 million people gained access to cleaner water; three million hectares of forest have been protected; and low carbon technology is helping 10 of the world's biggest cities to cut carbon emissions more quickly. The Partnership also conducted the world's largest ever forest research project that measured the impact of changing temperatures on the growth of 150,000 trees. The Partnership has also benefited from 63,000 days of volunteering from HSBC colleagues.

Within HSBC itself, the programme created a global community of over 2,200 employees called Climate Champions. Each Champion spent time out of the office learning about the actions needed to make a positive impact on our environment, knowledge which was shared with colleagues, friends and family.

This year sees the start of an exciting, new five-year programme focusing on water and how it helps communities flourish. Building on the success of the HSBC Climate Partnership, the new water programme will be delivered in partnership with three expert NGOs: WWF, Earthwatch Institute and WaterAid.

Today, in both developed and emerging economies, clean water is at risk because of pollution and the impact of climate change. Research by the United Nations Development Programme shows that investment in access to clean water and sanitation pays dividends: for every US$1 invested, US$8 is returned in increased economic productivity.

If you would like to learn more about these projects and about sustainability at HSBC, visit our website at www.hsbc.com. Our Sustainability Report 2011 *will be published on our website at the end of May.*

Your Board

Looking after your interests

Board of Directors

Douglas Flint, CBE, 56

Group Chairman

Skills and experience: extensive governance experience gained through membership of the Boards of HSBC and BP; considerable knowledge of finance and risk management in banking, multinational financial reporting, treasury and securities trading operations; honoured with a CBE in recognition of his services to the finance industry; a member of the Institute of Chartered Accountants of Scotland and the Association of Corporate Treasurers. Fellow of The Chartered Institute of Management Accountants. Joined HSBC in 1995.

Appointed to the Board: 1995

Current appointments include: director of The Hong Kong Association since 6 February 2011; and Vice Chairman and Chairman Designate (June 2012) of the Institute of International Finance.

Former appointments include: Group Finance Director and Chief Financial Officer, Executive Director, Risk and Regulation. Co-Chairman of the Counterparty Risk Management Policy Group III; Chairman of the Financial Reporting Council's review of the Turnbull Guidance on Internal Control; a member of the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board; 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; and a former partner in KPMG. Ceased to be Chairman and a member of the Nomination Committee on 2 December 2011. Ceased to be a non-executive director of BP p.l.c. on 14 April 2011.

Stuart Gulliver, 52

Group Chief Executive

Skills and experience: a career banker with over 30 years' international experience with HSBC; 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; 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. Joined HSBC in 1980.

Appointed to the Board: 2008

Current appointments include: Group Chief Executive and Chairman of The Hongkong and Shanghai Banking Corporation Limited since 1 January 2011; Chairman of HSBC France; and Chairman of the Group Management Board.

Former appointments include: Chairman, Europe, Middle East and Global Businesses; Chairman of HSBC Bank plc and of HSBC Bank Middle East Limited; Head of Global Banking and Markets; Co Head of Global Banking and Markets; Head of Global Markets; Head of Treasury and Capital Markets in Asia-Pacific. Ceased to be Deputy Chairman of HSBC Trinkaus & Burkhardt AG and a member of its Supervisory Board on 7 June 2011; and Chairman of HSBC Private Banking Holdings (Suisse) SA on 6 December 2011.

Safra Catz†, 50

Skills and experience: a background in international business leadership, having helped transform Oracle into the largest producer of business management software and the world's leading supplier of software for information management.

Appointed to the Board: 2008

Current appointments include: President and Chief Financial Officer of Oracle Corporation. Joined Oracle in 1999 and appointed to the board of directors in 2001.

Former appointments include: Managing Director of Donaldson, Lufkin & Jenrette.

Laura Cha†, GBS, 62

Member of the Corporate Sustainability Committee.

Skills and experience: extensive regulatory and policymaking experience in the finance and securities sector in Hong Kong and mainland China; formerly Vice Chairman of the China Securities Regulatory Commission, being the first person outside mainland China to join the Central Government of the People's Republic of China at vice-ministerial rank; awarded Gold and Silver Bauhinia Stars by the Hong Kong Government for public service; formerly Deputy Chairman of the Securities and Futures Commission in Hong Kong; and has worked in the US and Asia.

Appointed to the Board: 1 March 2011

Current appointments include: non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited; non-official member of the Executive Council of Hong Kong SAR; a director of Hong Kong Exchanges and Clearing Limited; and Tata Consultancy Services Limited; Chairman of the ICAC Advisory Committee on Corruption; a Hong Kong Deputy to the 11th National People's Congress of China; a member of the Advisory Board of the Yale School of Management, Millstein Center of Corporate Governance, and Performance at Yale University; a Senior International Advisor for Foundation Asset Management Sweden AB; and a member of the State Bar of California.

Former appointments include: non-executive director of Bank of Communications Co., Ltd., Baoshan Iron and Steel Co. Limited, Johnson Electric Holdings Limited, and China Telecom Corporation Limited; and Chairman of the University Grants Committee in Hong Kong.

Marvin Cheung†, GBS, OBE, 64

Member of the Group Audit Committee.

Skills and experience: a background in international business and financial accounting, particularly in greater China and the wider Asian economy; retired from KPMG Hong Kong in 2003 after more than 30 years; awarded the Gold Bauhinia Star by the Hong Kong Government. Fellow of the Institute of Chartered Accountants in England and Wales.

Appointed to the Board: 2009

Current appointments include: non-executive director of Hang Seng Bank Limited; non-executive chairman of the Airport Authority Hong Kong; non-executive director of HKR International Limited; non-official member of the Executive Council of the Hong Kong SAR; non-executive chairman of the Council of the Hong Kong University of Science and Technology; and 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 Ltd.

Former appointments include: non-executive director of Sun Hung Kai Properties Limited and Hong Kong Exchanges and Clearing Limited; Chairman and Chief Executive Officer of KPMG Hong Kong; and a council member of the Open University of Hong Kong.

John Coombe†, 66

Chairman of the Group Audit Committee and member of the Group Risk Committee and Group Remuneration Committee.

Skills and experience: a background in international business, financial accounting and the pharmaceutical industry; formerly Chief Financial Officer of GlaxoSmithKline with responsibility for the group's financial operations globally. Fellow of the Institute of Chartered Accountants in England and Wales.

Appointed to the Board: 2005

Current appointments include: non-executive Chairman of Hogg Robinson Group plc; a non-executive director of Home Retail Group plc; and a council member of The Royal Academy of Arts.

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.

Joachim Faber†, 61

Member of the Group Risk Committee from 1 March 2012.

Skills and experience: a background in banking and asset management with significant international experience, having worked in Germany, Tokyo, New York and London; former Chief Executive Officer of Allianz Global Investors AG and a member of the management board of Allianz SE until 31 December 2011; 14 years experience with Citigroup Inc. holding positions in Trading and Project Finance and as Head of Capital Markets for Europe, North America and Japan. Has a doctorate from the University of Administrative Sciences in Speyer.

Appointed to the Board: from 1 March 2012

Current appointments include: Chairman of Joh A. Benckiser SARL and Chair of the Investment Board of the Stifterverband für die Deutsche Wissenschaft; independent director of Deutsche Borse AG, Coty Inc.; a member of the advisory board of the Siemens Group Pension Board, and the boards of management of Deutsche Krebshilfe and the European School for Management and Technology; and a member of the Berlin Centre for Corporate Governance, the German Council for Sustainable Development and Allianz Climate Solutions.

Former appointments include: Chairman of Allianz Global Investors Kapitalanlagegesellschaft and Allianz Global Investors Deutschland GmbH; Chairman of the board of management of Allianz Global Investors Italia SGR SpA; a member of the advisory board of Allianz SpA; and a member of the supervisory board of Bayerische Boerse AG.

Rona Fairhead†, CBE, 50

Chairman of the Group Risk Committee and member of the Group Audit Committee and Nomination Committee.

Skills and experience: a background in international industry, publishing, finance and general management; formerly Finance Director of Pearson plc with responsibility for overseeing the day-to-day running of the finance function and directly responsible for global financial reporting and control, tax and treasury. Has a Master's in Business Administration from the Harvard Business School.

Appointed to the Board: 2004

Current appointments include: Chairman, Chief Executive Officer and a director of Financial Times Group Limited. A director of Pearson plc and a non-executive director of The Economist Newspaper Limited; and a non-executive member of the board of the UK Government's Cabinet Office.

Former appointments include: Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc; Finance Director of Pearson plc; and Chairman and a director of Interactive Data Corporation.

Sandy Flockhart, CBE, 60

Chairman, Europe, Middle East, Latin America, Commercial Banking

Skills and experience: a career banker, being an emerging markets specialist with over 35 years' experience with HSBC in Latin America, the Middle East, US and Asia; honoured with a CBE in recognition of his services to British business and charitable services and institutions in Mexico. Joined HSBC in 1974.

Appointed to the Board: 2008

Current appointments include: Chairman of HSBC Bank plc since 1 January 2011 and a director of HSBC Bank Middle East Limited since 7 July 2011; Chairman of HSBC Latin America Holdings (UK) Limited; a director of HSBC Bank Australia Limited; and a member of the Group Management Board.

Former appointments include: Chairman, Personal and Commercial Banking; Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited; a director of HSBC Bank (China) Company Limited and Hang Seng Bank Limited, vice-chairman and a director of HSBC Bank (Vietnam) Limited; Chairman, HSBC Bank Malaysia Berhad; Chairman, President and Group Managing Director, Latin America and the Caribbean; Chief Executive Officer, Mexico; Senior Executive Vice-President, Commercial Banking, HSBC Bank USA, N.A.; Managing Director of The Saudi British Bank.

James Hughes-Hallett†, SBS, 62

Member of the Group Risk Committee and Nomination Committee.

Skills and experience: a background in financial accounting and experience of management of a broad range of international businesses, including aviation, insurance, property, shipping, manufacturing and trading in the Far East, UK, US and Australia; awarded the Silver Bauhinia Star by the Hong Kong Government. Fellow of the Institute of Chartered Accountants in England and Wales.

Appointed to the Board: 2005

Current appointments include: Chairman of John Swire & Sons Limited; non-executive director of Cathay Pacific Airways Limited and Swire Pacific Limited; 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.

Former appointments include: non-executive director of The Hongkong and Shanghai Banking Corporation Limited.

Sam Laidlaw†, 56

Member of the Group Remuneration Committee.

Skills and experience: significant international experience, particularly in the energy sector, having had responsibility for businesses in four continents. Qualified Solicitor and Master's in Business Administration from INSEAD.

Appointed to the Board: 2008

Current appointments include: Chief Executive Officer of Centrica plc; a member of the UK Prime Minister's Business Advisory Group; and the Lead Non-executive Board Member of the Department for Transport.

Former appointments include: Executive Vice President of Chevron Corporation; a non-executive director of Hanson PLC; Chief Executive Officer of Enterprise Oil plc; and President and Chief Operating Officer of Amerada Hess Corporation.

John Lipsky†, 65

Member of the Group Risk Committee from 1 March 2012.

Skills and experience: international experience having worked in Chile, New York, Washington and London and interacted with financial institutions, central banks and governments in many countries; served at the International Monetary Fund as First Deputy Managing Director, Acting Managing Director from 14 May 2011 and as Special Advisor from 1 September 2011 until retirement on 11 November 2011. Has a PhD from Stanford University.

Appointed to the Board: from 1 March 2012

Current appointments include: Distinguished Visiting Scholar, International Economics Program at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University; co-director of the Aspen Institute Program on the Global Economy; director of the National Bureau of Economic Research; a member of the advisory board of the Stanford Institute for Economic Policy Research and the Council on Foreign Relations.

Former appointments include: Vice Chairman J P Morgan Investment Bank; director of the American Council on Germany and the Japan Society; and a trustee of the Economic Club of New York.

Rachel Lomax†, 66

Member of the Group Audit Committee and Group Risk Committee.

Skills and experience: experience in both the public and private sectors and a deep knowledge of the operation of the UK government and financial system.

Appointed to the Board: 2008

Current appointments include: non-executive director of The Scottish American Investment Company PLC, Reinsurance Group of America Inc., Arcus European Infrastructure Fund GP LLP and BAA Limited; a director of the Council of Imperial College, London; and President of the Institute of Fiscal Studies.

Former appointments include: Deputy Governor, Monetary

Stability, at the Bank of England and a member of the Monetary Policy Committee; Permanent Secretary at the UK Government Departments for Transport and Work and Pensions and the Welsh Office; and Vice President and Chief of Staff to the President of the World Bank.

Iain Mackay, 50

Group Finance Director

Skills and experience: extensive financial and international experience, having worked in London, Paris, US and Asia. Member of the Institute of Chartered Accountants of Scotland. Joined HSBC in 2007.

Appointed to the Board: 2010

Current appointments include: member of the Group Management Board.

Former appointments include: director of Hang Seng Bank Limited; Chief Financial Officer, Asia Pacific; and Chief Financial Officer, HSBC North America Holdings Inc; Vice President and Chief Financial Officer of GE Consumer Finance and Vice President and Chief Financial Officer of GE Healthcare – Global Diagnostic Imaging.

Gwyn Morgan†, CM, 66

Member of the Group Remuneration Committee.

Skills and experience: a background in technical, operational, financial and management positions leading large international companies in the energy and engineering sectors; has been recognised as Canada's most respected Chief Executive Officer in a national poll of Chief Executives; a business columnist for Canada's largest national newspaper; appointed a Member of the Order of Canada for his contributions as a business and community leader and as a philanthropist.

Appointed to the Board: 2006. Will retire from the Board with effect from the conclusion of the 2012 Annual General Meeting.

Current appointments include: non-executive Chairman of SNC-Lavalin Group Inc, a member of the Board of Trustees of The Fraser Institute and a director of the Manning Centre for Building Democracy.

Former appointments include: non-executive director of HSBC Bank Canada, Founding President, Chief Executive Officer and Vice Chairman of EnCana Corporation; and a director of Alcan Inc. and Lafarge North America, Inc.

Narayana Murthy†, CBE, 65

Chairman of the Corporate Sustainability Committee.

Skills and experience: experience in information technology, corporate governance and education, particularly in India; founded Infosys Limited in India; was its Chief Executive Officer for 21 years; under his leadership Infosys established a global footprint and was listed on NASDAQ.

Appointed to the Board: 2008

Current appointments include: Chairman Emeritus of Infosys Limited; a director of the United Nations Foundation and Catamaran Management Services Pvt. Ltd.

Former appointments include: former Chief Executive Officer of Infosys Limited; a director of Unilever plc and Unilever n.v.; and a non-executive director of DBS Group Holdings Limited, DBS Bank Limited and New Delhi Television Limited.

Sir Simon Robertson†, 70

Deputy Chairman and senior independent non-executive Director

Chairman of the Nomination Committee.

Skills and experience: a background in international corporate advisory with a wealth of experience in mergers and acquisitions, merchant banking, investment banking and financial markets; honoured with a knighthood in recognition of his services to business; extensive international experience having worked in France, Germany, the UK and the US.

Appointed to the Board: 2006

Current appointments include: non-executive Chairman of Rolls-Royce Holdings plc since 23 February 2011, which became the holding company of the Rolls-Royce group of companies on 23 May 2011 as part of a group restructuring. Chairman of Rolls-Royce Group plc, formerly the holding company of the Rolls-Royce group of companies, until 23 May 2011. The founding member of Simon Robertson Associates LLP; a non-executive director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and Royal Opera House Covent Garden Limited; a partner of NewShore Partners LLP; and 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.

John Thornton†, 58

Chairman of the Group Remuneration Committee.

Skills and experience: experience that bridges developed and developing economies and the public and private sectors; 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.

Appointed to the Board: 2008

Current appointments include: non-executive Chairman and a director of HSBC North America Holdings Inc.; 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; a Trustee of Asia Society, China Institute, The China Foreign Affairs University, a member of the Council on Foreign Relations and the China Securities Regulatory Commission International Advisory Committee.

Former appointments include: non-executive director of Industrial and Commercial Bank of China Limited and Intel Corporation, Inc.; and President of the Goldman Sachs Group, Inc.

Sir Brian Williamson†, CBE, 67

Member of the Nomination Committee.

Skills and experience: extensive experience in money and bond markets, insurance, private equity, futures, options and commodities trading internationally; established the London International Financial Futures and Options Exchange and led the Exchange's development of its electronic trading platform; was the first chairman of Resolution plc, established to consolidate life assurance business in the UK; and a member of the Guild for International Bankers.

Appointed to the Board: 2002. Will retire from the Board with effect from the conclusion of the 2012 Annual General Meeting.

Current appointments include: director of NYSE Euronext.

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

† Independent non-executive Director

Secretary

Ralph Barber, 61

Group Company Secretary

Joined HSBC in 1980. Group Company Secretary since 1986 and Company Secretary of HSBC Holdings plc since 1990. Appointed a Group General Manager in 2006. 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. Fellow of the Institute of Chartered Secretaries and Administrators. Former HSBC appointments include: Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited and Company Secretary of HSBC Bank plc.

Adviser to the Board

David Shaw, 65

An Adviser to the Board since 1998. 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. A solicitor and formerly a partner in Norton Rose.

Summary Directors' Report

Results for 2011

HSBC reported profit before tax of US$21,872 million. Profit attributable to shareholders of HSBC Holdings was US$16,797 million, a 10.9 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$136 billion at 31 December 2011. We are headquartered in London.

Our products and services are delivered to clients through four global businesses, Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), Global Banking and Markets ('GB&M'), and Global Private Banking ('GPB').

We operate through long-established businesses and have an international network of some 7,200 offices in 85 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America.

Taken together, our five largest customers do not account for more than 1% 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.

Following a Group-wide review of our businesses, 16 disposals or closures were announced in 2011, and a further three in 2012. The most significant of these were the sales of 195 retail branches, primarily in upstate New York, our US Card and Retail Services portfolio and our businesses in Costa Rica, El Salvador and Honduras. For further information on these disposals, see page 379 of the *Annual Report and Accounts 2011*.

There were no significant acquisitions during the year.

Future developments

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 2 to 17 and form part of this Summary Financial Statement.

Corporate Governance Report

The information set out on pages 27 to 47 and information incorporated by reference is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 218 to 277 of the *Annual Report and Accounts 2011*. A copy of the *Annual Report and Accounts 2011* is available on our website: www.hsbc.com/financialresults.

Board of Directors

The purpose of HSBC's management structure, 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 and risk appetite for the Group and approves 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') which is led by the Group Chief Executive.

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 Board delegates the management and day-to-day running of HSBC to the GMB but retains to itself approval of certain matters including operating plans, risk appetite and performance targets, procedures for monitoring and controlling operations, the authority or the delegation of authority to approve credit, market risk limits, acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture, specified senior appointments and any substantial change in balance sheet management policy.

The Directors who served during the year were S A Catz, L M L Cha (appointed 1 March 2011), V H C Cheng (retired 27 May 2011), M K T Cheung, J D Coombe, R A Fairhead, D J Flint, A A Flockhart, S T Gulliver, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, I J Mackay, G Morgan, N R N Murthy, Sir Simon Robertson, J L Thornton and Sir Brian Williamson.

Brief biographical particulars of all Directors are given on pages 27 to 29.

Board meetings
Seven Board meetings and a two-day strategy meeting were held in 2011. At least one Board meeting each year is held in a key strategic location outside the UK. During 2011, Board meetings were held in Hong Kong and Washington D.C.

The table below shows each Director's attendance at meetings of the Board held while he or she was a Director during 2011. No meetings of the Board were held at short notice in 2011.

Eleven meetings of committees of the Board appointed to discharge specific business were held during 2011. These meetings are not shown in the table below.

Attendance record

	Board
Number of meetings held	7
S A Catz	6
L M L Cha[1]	5
V H C Cheng[2]	3
M K T Cheung	7
J D Coombe	7
R A Fairhead[3]	4
D J Flint	7
A A Flockhart	7
S T Gulliver	7
J W J Hughes-Hallett	7
W S H Laidlaw	7
J R Lomax	7
I J Mackay	7
G Morgan	6
N R N Murthy	6
Sir Simon Robertson	7
J L Thornton	6
Sir Brian Williamson	7

1 Appointed a Director on 1 March 2011 – eligible to attend 5 Board Meetings.
2 Retired as a Director on 27 May 2011 – eligible to attend 4 Board Meetings.
3 Took a temporary leave of absence due to illness.

Group Chairman and Group Chief Executive
The roles of Group Chairman and Group Chief Executive are separate and held by experienced full-time Directors. 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 key responsibilities of the Group Chairman and the Group Chief Executive are set out below.

Key responsibilities

Group Chairman – D J Flint
Appointed December 2010

- Leads the Board and ensures its effectiveness.
- Develops relationships with governments, regulators and investors.
- Leads the Group's interactions on matters of public policy and regulatory reform with regard to the banking and financial services industry.
- Maintains corporate reputation and character.
- Undertakes performance management of the Group Chief Executive.

Group Chief Executive – S T Gulliver
Appointed January 2011

- Develops, and delivers performance against, business plans.
- Develops Group strategy, in agreement with the Group Chairman, for recommendation to the Board.
- As Chairman of the GMB, drives performance within strategic goals and commercial objectives agreed by the Board.

Further information on the roles and responsibilities of the Group Chairman and Group Chief Executive is available at www.hsbc.com/investor-relations/governance.

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 of the Board (including the skills, knowledge and experience required of Directors) necessary to address and challenge adequately key risks and issues 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 expected retirement dates of existing Directors.

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, J Faber, R A Fairhead, J W J Hughes-Hallett, W S H Laidlaw, J P Lipsky, J R Lomax, G Morgan, N R N Murthy, Sir Simon Robertson, J L Thornton and Sir Brian Williamson to be independent. The Board has determined L M L Cha to be independent. Her role as deputy chairman of, and former role as corporate relations adviser to, The Hongkong and Shanghai Banking Corporation Limited, were considered not to be material. 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.

Induction and ongoing development
Full, formal and tailored induction programmes, with particular emphasis on the systems of risk management and internal controls, are arranged for newly appointed Directors. The programmes consist of a series of meetings with other Directors and senior executives to enable new Directors to familiarise themselves with our strategy, risk appetite, operations and internal controls. Directors also receive comprehensive guidance on directors' duties and liabilities. 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. Induction programmes are also arranged for newly appointed members of committees.

Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally run seminars throughout their directorship and while serving on committees. Focused in-house development programmes to enhance business awareness are arranged in conjunction with scheduled Board meetings. Directors have access to internal training and development resources.

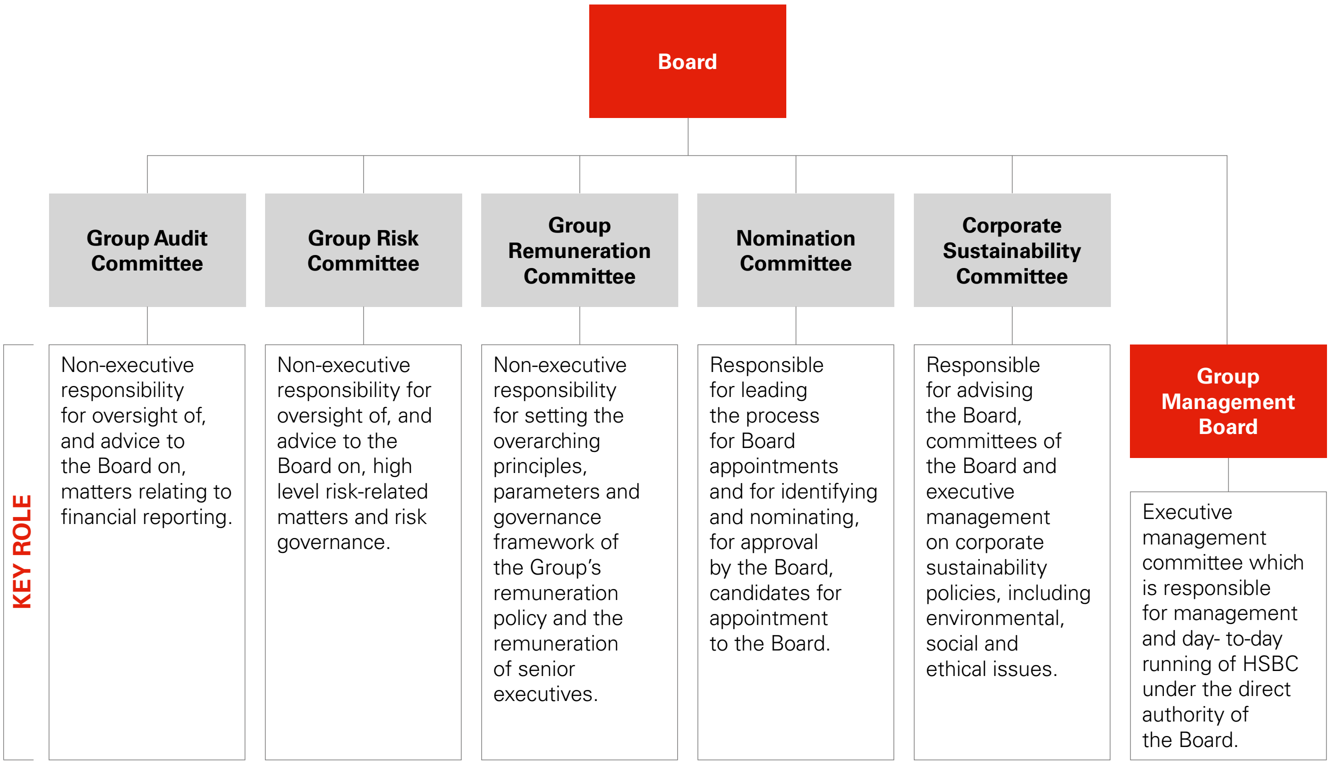
A personalised approach to training and development of Directors is applied. Records of development activities are maintained by the Group Company Secretary for annual review by the Group Chairman with the Director concerned.

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, 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 G Morgan and Sir Brian Williamson who are to retire, offer themselves for re-election. Each of the executive Directors is employed on a rolling contract which requires 12 months' notice to be given by either party. None of the non-executive Directors has a service contract with HSBC.

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 UK Corporate Governance Code issued by the Financial Reporting Council and 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, save that the Group Risk Committee (all the members of which are independent non-executive Directors), which was established in accordance with the recommendations of the Report on Governance in UK banks and other financial industry entities, is responsible for the oversight of internal controls (other than internal controls over financial reporting) and risk management systems (Code on Corporate Governance Practices provision C.3.3 paragraphs (f), (g) and (h)). If there were no Group Risk Committee, these matters would be the responsibility of the Group Audit Committee. The UK Corporate Governance Code is available at www.frc.org.uk and the Code on Corporate Governance Practices is available at 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 established a number of committees. The key roles of the principal committees are described above. The terms of reference of the non-executive Board committees are available at www.hsbc.com/boardcommittees.

Group Management Board

Members S T Gulliver (Chairman), A A Flockhart and I J Mackay, who are executive Directors, and A Almeida, S Assaf, R E T Bennett, A M Keir, S A Levey, M M Moses, S P O'Sullivan, B Robertson, P A Thurston and P T S Wong, all of whom are Group Managing Directors.

The GMB meets frequently and 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. Matters reserved for approval by the Board are described on page 225 of the *Annual Report and Accounts 2011*.

The GMB is a key element of our management reporting and control structure such that all of our line operations are accountable either to a member of the GMB or directly 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.

Regular Risk Management Meetings, chaired by the Group Chief Risk Officer, are held to review the policy and guidelines for the management of risk within the Group.

Group Audit Committee

Members[1]	Meetings attended[2]
J D Coombe (Chairman)	7
M K T Cheung	7
R A Fairhead[3]	3
J R Lomax	6
Meetings held in 2011	**7**

1 All members are independent non-executive Directors.
2 During the year two meetings were held at short notice.
3 Took a temporary leave of absence due to illness.

The Group Audit Committee ('GAC') has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting.

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 for the purposes of the UK Corporate Governance Code.

Committee's activities
The GAC undertook the following activities in the discharge of its responsibilities:

- **Internal controls over financial reporting.** The Committee satisfied itself that the system of internal control and compliance over financial reporting was effective through regular reports from the Group Finance Director, the Group Chief Accounting Officer, and the Group Head of Internal Audit. The Committee reviewed minutes of the Group Risk Committee ('GRC') and executive committee meetings including the GMB, Risk Management Meetings and the Disclosure Committee. The Committee undertook an annual review of the effectiveness of HSBC's system of internal control over financial reporting. HSBC's internal control system is described on page 240 of the *Annual Report and Accounts 2011*. The Committee also reviewed the adequacy of resources, qualifications and experience of staff in the finance function. Reports were submitted to the Committee on internal control matters in relation to the Sarbanes-Oxley Act. The Group Finance Director, the Group Chief Risk Officer, the Group Head of Internal Audit, the Group Chief Accounting Officer and other senior executives attended Committee meetings. The Committee had regular discussions with the external auditor and the Group Head of Internal Audit, with an opportunity at each meeting for discussions to take place without management present.
- **Effectiveness of the internal audit function.** The Committee satisfied itself that the internal audit function was effective and adequately resourced through regular meetings held with, and reports provided by, the Group Head of Internal Audit on internal audit issues, including the adequacy and effectiveness of resources. The Committee reviewed an annual report on the activities of the internal audit function and planned activities for the following year.
- **Legal and regulatory environment.** The Committee received regular updates on the application of changes in law, regulation, accounting policies and practices and regulatory developments, including reports on Basel III, the recommendations of the Independent Commission on Banking, regulation of Global Systematically Important Financial Institutions, and the Dodd-Frank Act. Regular reports were received on litigation. The Committee received reports on meetings with the Financial Services Authority ('FSA') as part of the FSA's close and continuous supervisory regime.
- **External auditor.** The Committee provided oversight of the external auditor through regular meetings with the external auditor, including meetings without management present. Reports were received on the external auditor's strategy in relation to the audit of financial statements and the progress of the audit. The Committee has approved policies on the provision of non-audit services by the external auditor and its affiliates and on the employment by HSBC of former employees of the external auditor or its affiliates. The Committee reviewed the independence and objectivity of the external auditor through meetings with the external auditor, annual reports on employment of former employees of the external auditor and its affiliates and quarterly reports on provision of non-audit services. The external auditor provided written confirmation of its independence under industry standards. The Committee approved the remuneration and terms of engagement of, and recommended to the Board the re-appointment of, the external auditor.
- **Financial reporting.** The Committee advised the Board on meeting its external financial reporting obligations through a review of financial statements, interim reports and interim management statements prior to approval by the Board. The Committee endorsed for inclusion in the financial statements the going concern statement and the statement of compliance with the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the UK Corporate Governance Code. The Committee received reports on proposed changes to the Group's disclosures in the financial statements and the adequacy of procedures to identify transactions and matters requiring disclosure under certain accounting standards. A review of accounting policies and practices, including approval of the critical accounting policies, was undertaken. The Committee considered accounting provisioning for, and disclosure of, certain litigation and regulatory matters with external legal counsel providing a status update on these matters. The Committee reviewed minutes of the Disclosure Committee. A presentation was received from the Global Head of Tax on current tax issues. The disclosure of the results of the European Banking Authority ('EBA') EU-wide stress testing programme was considered. Reports were received on economic hedges which do not meet the requirements of hedge accounting.
- **Terms of reference and effectiveness of the Committee.** The Committee undertook a review of its terms of reference and of its own effectiveness. Changes were made to the terms of reference to minimise the overlap of responsibilities between the GAC and the GRC.

The Committee has recommended to the Board that KPMG Audit Plc be reappointed as 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 pages 325 to 326 of the Notes on the Financial Statements in the *Annual Report and Accounts 2011*.

Further information about the Group Audit Committee is given on pages 230 to 233 of the *Annual Report and Accounts 2011*.

Group Risk Committee

Members[1]	Meetings attended
R A Fairhead (Chairman)[2]	4
J D Coombe[3]	6
J W J Hughes-Hallett	5
J R Lomax	5
Meetings held in 2011	**6**

1 All members are independent non-executive Directors.
2 Took a temporary leave of absence due to illness. Resumed the role of Chairman in January 2012.
3 Chaired all meetings in 2011 as acting Chairman.

John Trueman, a non-executive director of HSBC Bank plc and Chairman of its risk and audit committees, has been invited by the GRC to attend its meetings. His experience of risk-related matters in the financial services industry is valued by the Committee.

Committee activities
The GRC undertook the following key activities in the discharge of its responsibilities:

- **Oversight of executive risk management.** Regular reports and presentations were received from the Group Chief Risk Officer including at each meeting a presentation of a 'risk map', which provided detailed analysis, on a Group-wide, global business and regional basis, of risk profiles for categories of risk identified in the Group Risk Appetite Statement, and of a top and emerging risks report which summarised proposed mitigating actions for identified risks. The Committee reviewed minutes of the GAC, Group Remuneration Committee and executive committee meetings including the GMB, the Risk Management Meeting and the Group Reputational Risk Policy Committee. Reports were received from the Group General Counsel on forward-looking legal risks, the Group Head of Compliance on forward-looking compliance risks and from the Group Remuneration Committee and Head of Group Performance and Reward. Updates were received on the on-going investigations by US regulatory and law enforcement authorities and US dispute risk, and compliance matters in the US. The Group Finance Director and the Group Chief Accounting Officer regularly attended meetings of the Committee and other senior financial, risk, internal audit, legal and compliance executives attended as appropriate.

- **Stress testing.** The Committee reviewed the outcome of stress tests as referred to in the section headed 'Stress Testing' on page 236 of the *Annual Report and Accounts 2011*.
- **Review of effectiveness of internal controls.** A series of presentations were made, and reports submitted by, the Group Chief Risk Officer and other business and function heads to the Committee on the risk control framework in their respective business or function. Reports from the Group Head of Internal Audit on the internal audit process and weaknesses identified in internal controls (other than over financial reporting) were presented to the Committee, as well as reports from the external auditor and regulators relating to the internal control system. The Committee undertook an annual review process of HSBC's system of internal controls, other than over financial reporting. HSBC's internal control system is described on page 240 of the *Annual Report and Accounts 2011*. The Committee had regular discussions at meetings with the external auditor and the Group Head of Internal Audit, with opportunities at each meeting for discussions to take place without management present.
- **Risk appetite.** The Group Risk Appetite Statement for 2011 was recommended to the Board for approval following consideration of the alignment of risk appetite and Group strategy. The Committee undertook regular reviews of the Group's risk profile against the key performance indicators set out in the Risk Appetite Statement and considered the need for any adjustment to the risk appetite. Reports and presentations were received from the Group Chief Risk Officer, including on liquidity and capital management and the results of HSBC's stress testing and scenario analysis programme.
- **Alignment of remuneration with risk appetite.** Presentations and reports were received on remuneration-related proposals to assist the Committee in giving advice to the Group Remuneration Committee on the alignment of remuneration with risk appetite. The GRC considered risk-related issues to be taken into account by the Group Remuneration Committee, including when determining the total variable pay funding pool for the 2011 performance year. The funding methodology, including the proposed ratio between variable pay funding, dividends and capital retained, was also considered. The Committee received presentations on the procedure for determining individual variable pay awards including the risk assessment process for identifying matters for which risk-related adjustments may be made to individual and team awards. The process by which an individual's adherence to HSBC Values and the Group's risk-related policies and procedures is taken into account in performance assessment and determination of variable pay was also presented to the Committee. The Committee considered the framework to be used by the Group Remuneration Committee in exercising its discretion in delivering performance awards for the 2011 performance year and the proposed design of the performance scorecard for the 2012 performance year. The Committee provided advice and feedback on risk-related matters to the Group Remuneration Committee where appropriate.
- **Top and emerging risks.** In monitoring top and emerging risks the Committee received regular reports from the Group Chief Risk Officer and the Group Head of Compliance as well as other members of senior management on risks identified and developments in the Group's business, including the changing regulatory environment and global market risk such as the implications of the eurozone crisis and the impact of the tightening of liquidity in the money markets. The Committee reviewed minutes of executive committee meetings including meetings of the GMB, the Risk Management Meeting and Group Reputational Risk Policy Committee.
- **Acquisitions.** The Committee received reports and presentations on risk issues relating to proposed strategic acquisitions and advised the Board appropriately. The Group Head of Mergers and Acquisitions and other members of senior management involved in the proposed acquisitions attended meetings of the Committee as appropriate.
- **Terms of reference and Committee effectiveness.** The Committee undertook a review of its terms of reference and of its own effectiveness. Changes were made to the Committee's terms of reference to minimise the overlap of responsibilities between the GRC and the GAC.

Further information about the Group Risk Committee is given on pages 233 to 238 of the *Annual Report and Accounts 2011*.

Group Remuneration Committee

Members[1]	Meetings attended[2]
J L Thornton (Chairman)	8
J D Coombe	9
W S H Laidlaw	9
G Morgan	8
Meetings held in 2011	**9**

1 All members are independent non-executive Directors.
2 During the year two meetings were held at short notice.

The Group Remuneration Committee is responsible for approving remuneration policy. As part of its role, it considers 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 and in doing so takes into account the pay and conditions across the Group. No directors are involved in deciding their own remuneration.

The 'Summary Directors' Remuneration Report' is set out on pages 36 to 47.

Nomination Committee

Members[1]	Meetings attended
Sir Simon Robertson[2] (Chairman)	4
D J Flint[3]	4
R A Fairhead[4]	3
J W J Hughes-Hallett	4
Sir Brian Williamson	4
Meetings held in 2011	**4**

1 Since 2 December 2011, all members are independent non-executive Directors.
2 Appointed Chairman 2 December 2011.
3 Retired as Chairman and a member of the Committee on 2 December 2011.
4 Took a temporary leave of absence due to illness.

On 2 December 2011, Sir Simon Robertson was appointed Chairman of the Nomination Committee in succession to D J Flint who stepped down from the Nomination Committee. D J Flint has been invited to continue to attend meetings of the Committee.

Committee activities
The Committee undertook the following key activities in the discharge of its responsibilities:

- **Appointments of new Director:** The Committee oversaw the process for the appointment of L M L Cha as a Director. L M L Cha has been deputy chairman of The Hongkong and Shanghai Banking Corporation since 2 March 2007 and was therefore well known to members of the Board prior to her appointment as a Director. Neither external consultants nor advertising were considered necessary in relation to this appointment.
- **Board appointment process.** The Committee leads the process for Board appointments, with the support of external consultants as appropriate, and has satisfied itself that appropriate plans are in place for orderly succession to the Board reflecting an appropriate balance of skills and experience on the Board.
- **Forward planning.** The Committee maintains a forward-looking schedule of potential candidates for appointment to the Board that takes into account the needs and development of the Group's businesses and the expected retirement dates of current Directors.

- **Size, structure and composition.** The Committee monitored the size, structure and composition of the Board through consideration of the skills, knowledge and experience required of the Board and the skills, knowledge and experience of the current Directors. The Committee considered the re election of Directors at the Annual General Meeting and on the recommendation of the Committee, the Board has decided that all Directors should be subject to re-election by shareholders in 2012.
- **Gender diversity.** The Committee reviewed Lord Davies of Abersoch's report 'Women on Boards' and amendments to the UK Corporate Governance Code. The benefits of diversity continue to influence succession planning and are key criteria in the instructions to external search consultants.
- **Terms of reference and Committee effectiveness.** The Committee undertook a review of its terms of reference and amendments were made to make explicit reference to the need to have regard to the benefits of diversity when identifying suitable candidates for appointment to the Board. The effectiveness of the Committee was reviewed as part of the Board's performance evaluation.

Before recommending an appointment to the Board, the Committee evaluates the balance of skills, knowledge and experience of the Board and, in 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.

Corporate Sustainability Committee

Members	Meetings attended
N R N Murthy (Chairman)	4
L M L Cha[1]	3
V H C Cheng[2]	1
G V I Davis[3]	4
Lord May[3]	3
Dame Mary Marsh[3]	4
Meetings held in 2011	4

1 Appointed a member on 3 May 2011. Eligible to attend 3 meetings.
2 Retired as a Director on 27 May 2011. Eligible to attend 2 meetings.
3 Non-Director members of the Committee.

Sustainability governance
The Corporate Sustainability Committee is responsible for overseeing the Group's Corporate Sustainability policies (principally environmental, social and ethical matters) and for advising the Board, committees of the Board and executive management on such matters.

Further information about Corporate Sustainability is given on pages 239 to 240 of the *Annual Report and Accounts 2011*.

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. These philanthropic programmes aim to involve employees in the work of local NGOs and charities. Our global education programmes focus on helping disadvantaged children, promoting financial literacy and environmental education and understanding. Our flagship US$100m environmental programme, the HSBC Climate Partnership, came to an end at the close of 2011. Over the last five years we have worked alongside The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF on tackling climate change. The Climate Partnership has created a global community of 2,233 HSBC employees, called Climate Champions, who have conducted research in the field and applied this learning to our business. The Partnership also benefitted from 63,000 days of volunteering HSBC colleagues.

In 2011, we donated a total of US$96 million to community investment projects (2010: US$108 million).

Called up share capital

Information about shares issued during the year is given in Note 5 on page 52.

Dividends for 2011

First, second and third interim dividends for 2011, each of US$0.09 per ordinary share, were paid on 6 July 2011, 6 October 2011 and 18 January 2012 respectively. On 27 February 2012, the Directors declared a fourth interim dividend for 2011 of US$0.14 per ordinary share in lieu of a final dividend, which will be payable on 2 May 2012 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 23 April 2012, with a scrip dividend alternative. As the fourth interim dividend for 2011 was declared after 31 December 2011 it has not been included in the balance sheet of HSBC as a debt. The reserves available for distribution at 31 December 2011 were US$34,621 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 2011.

Dividends for 2012

The proposed timetable for interim dividends in respect of 2012 on the ordinary shares of US$0.50 is set out in the 'Shareholder Information' section on page 54.

Quarterly dividends of US$15.50 per 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) and £0.01 per Series A Sterling Preference Share were declared on 13 February 2012 for payment on 15 March 2012.

Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank plc and The Hongkong and Shanghai Banking Corporation Limited, 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 2011.

Auditor's Report

The auditor's report on the full accounts for the year ended 31 December 2011 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 the Directors' Report is consistent with the accounts) was unqualified.

Summary Directors’ Remuneration Report

Group Remuneration Committee

Within the authority delegated by the Board, the Group Remuneration Committee (‘the Committee’) is responsible for approving the Group’s remuneration policy. The Committee also determines the remuneration of Directors, other senior Group employees, employees in positions of significant influence and employees whose activities have or could have an impact on our risk profile and, in doing so, takes into account the pay and conditions across our Group.

No Directors are involved in deciding their own remuneration.

Members and advisers

The members of the Committee during 2011 were J D Coombe, W S H Laidlaw, G Morgan and J L Thornton.

There were nine meetings of the Committee during 2011. The table on page 34 gives details of Directors’ attendance at these meetings.

The Committee has decided to not use advisers except in exceptional circumstances. No external advisers were used by the Committee during 2011. During the year, the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Group Head of Human Resources and Corporate Sustainability, A Almeida, the Group Head of Performance and Reward, T Roberts and the Group Chief Risk Officer, M M Moses.

The Committee also received advice and feedback from the Group Risk Committee on risk-related matters relevant to remuneration and the alignment of remuneration with risk appetite.

HSBC’s reward strategy

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

HSBC’s reward strategy supports this objective through focusing on both short-term and sustainable performance over the long-term. It aims to reward success, not failure, and be properly aligned with risk.

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

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

Overview of remuneration

In order to ensure clarity over remuneration, there are just four elements of remuneration, two of which are performance related. These are:

- fixed pay;
- the annual bonus;
- the Group Performance Share Plan (the new long-term incentive plan of the HSBC Share Plan 2011); and
- benefits.

The Group Performance Share Plan (‘GPSP’) was developed over 2010 and 2011 to incentivise senior executives to deliver sustainable long-term business performance. A key feature of the GPSP is that participants are required to hold the awards, once they have vested, until retirement, thereby enhancing the alignment of interest between the senior executives of the Group and shareholders.

As part of the HSBC Share Plan 2011, the GPSP was approved by shareholders at the Annual General Meeting in May 2011 and the first awards were made in June 2011. It replaces the previous long-term incentive plan. Further details are given on page 39.

Executive Directors, Group Managing Directors and Group General Managers participate in both performance-related plans, namely the annual bonus and the GPSP. Other employees across the Group are eligible to participate in annual bonus arrangements. Both the annual bonus and long-term incentive awards are funded from a single annual variable pay pool from which individual awards are considered.

Group variable pay pool determination

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

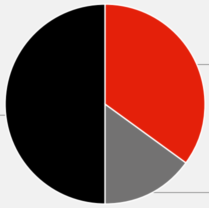
The variable pay pool takes into account the performance of the Group which is considered within the context of our risk appetite statement. This helps to ensure that the variable pay pool is shaped by risk considerations. The risk appetite statement describes and measures the amount and types of risk that HSBC is prepared to take in executing our strategy. It shapes our integrated approach to business, risk and capital management and supports achievement of our objectives. The Group Chief Risk Officer regularly updates the Committee on the Group’s performance against the risk appetite statement.

The Committee uses these updates when considering remuneration to ensure that return, risk and remuneration are aligned. The risk appetite statement for 2011 was approved by the Board and was cascaded across global businesses and regions.

In addition, our funding methodology considers the relationship between capital, dividends and variable pay to ensure that the distribution of post tax profits between these three elements is considered appropriate. On a pro forma basis, attributable profits (excluding movements in the fair value of own debt and before variable pay distributions) are allocated in the following proportions:

Summary Directors' Remuneration Report *(continued)*

Pro-forma post-tax profits allocation 2011



1 Inclusive of dividends to holders of other equity instruments and net of scrip issuance.
2 Total variable pay pool for 2011 net of tax and portion to be delivered by the award of HSBC shares.

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

The 2011 Group variable pay pool that was approved by the Committee is detailed below. It is stated in US dollars in line with the main currency of presentation of our results and on a constant currency basis.

Group variable pay pool

	Group		Global Banking and Markets	
	2011 US$m	2010 US$m	**2011 US$m**	2010 US$m
Total 2011 variable pay pool	4,223	4,297	1,210	1,640
	%	%	**%**	%
Variable compensation bonus pool as a percentage of pre-tax profit (pre-variable pay)[1]	**18**	18	**14**	15
Proportion of bonus that is deferred	**16**	18	**27**	31

1 The 2011 Group pre-tax profit pre-variable pay includes the add back of restructuring costs incurred during the year, and the adjustment for movements in the fair value of own debt attributable to credit spread.

Individual awards
Individual awards are based on the achievement of both financial and non-financial objectives. These objectives, which are aligned with the Group's strategy, are detailed in participants' annual performance scorecards and the collective long-term performance scorecard of participants in the GPSP. Performance is then measured and reviewed against the objectives on a regular basis.

HSBC Values are described on page 6. They are key to the running of a sound, sustainable bank. Overall performance under both scorecards is judged on performance outcomes and, importantly, adherence to the HSBC Values. Our most senior employees had a separate values rating for 2011 which directly influenced their overall performance rating and, accordingly, their variable pay.

In addition, the global Risk and Compliance functions carry out annual reviews for senior executives and risk-takers (defined as HSBC Code Staff). These reviews determine whether there are any instances of non-compliance with Risk and Compliance procedures and expected behaviour. Instances of non-compliance are escalated to senior management for consideration in variable pay decisions, clawback and ongoing employment.

Group-wide thematic reviews of risk are also carried out to determine if there are any transgressions for sizing variable pay or any instances where clawback is required. Risk and Compliance input is a critical part of the assessment process in determining the performance of HSBC Code Staff (which includes the executive Directors) and in ensuring that their individual remuneration has been appropriately assessed with regard to risk.

We require a proportion of variable pay awards above certain thresholds to be deferred into awards of HSBC shares. This is to ensure that our interests and those of our employees are aligned with those of our shareholders, that our approach to risk management supports the interests of all stakeholders and that remuneration is consistent with effective risk management. In addition, employees are encouraged to participate in our savings-related share options plans and local share ownership arrangements.

Finally, in considering individual awards, a comparison of the pay and employment conditions of our employees, Directors and senior executives is considered by the Committee.

Clawback
In order to reward genuine performance and not failure, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. However, if the assessment of performance subsequently proves to be inaccurate or incorrect, then previously unvested deferred awards made since 2010 can be clawed back by the Committee. Clawback has been exercised by the Committee in 2012 in relation to the inappropriate advice given by advisors of NHFA Limited and in relation to the settlement of claims around the possible mis-selling of Payment Protection Insurance in the UK.

Regulation

2011 has seen further significant change to the regulatory environment as it relates to remuneration. There is still a wide divergence in how regulations operate globally and this presents significant challenges to HSBC, which operates in 85 countries and territories worldwide. In order to deliver long-term sustainable performance, it is important we have market-competitive remuneration in order to attract, motivate and retain talented and committed employees around the world.

We 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 FSA guidance and rules on remuneration.

Executive Directors' remuneration

Composition of executive Directors' reward
Executive Directors' reward is delivered through three main elements (excluding benefits):

Description	Strategic purpose
Fixed pay	• Takes account of experience and personal contribution to the individual's role.
Annual bonus	• Maximum bonus is three times fixed pay (a reduction from the previous maximum of four times). • The award is non-pensionable. • Drives and rewards performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy. • The 2011 bonus will be fully delivered in HSBC shares, 60% of the bonus is deferred over a period of three years, 33% vests on the first and second anniversary of grant and 34% on the third anniversary of grant. During the vesting period the Committee has the authority to claw back part of or all the award. • 50% of the deferred and non-deferred awards are subject to a six-month retention period after vesting in line with FSA regulations.
GPSP	• Maximum award is six times fixed pay (a reduction from the maximum of seven times under the previous long-term incentive plan). • The award is non-pensionable. • Incentivises sustainable long-term performance and alignment with shareholder interests. • Award levels are determined by considering performance prior to the date of grant against enduring performance measures set out in the long-term performance scorecard. • The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award. • On vesting the net of tax shares must be retained until the participant retires.

This approach applies to all executive Directors with the exception of the Group Chairman, D J Flint who, from 2011, is not eligible for annual bonus and is not expected to be granted awards under the GPSP except in exceptional circumstances.

Fixed pay
No fixed pay increases are proposed for executive Directors in 2012.

Annual bonus
Determining executive Directors' performance

S T Gulliver
The annual bonus award made to S T Gulliver in respect of 2011 was based upon the Committee's assessment of the achievement of personal and corporate objectives as laid out in his performance scorecard agreed by the Board at the beginning of the year. This approach took into account performance against both financial and non-financial objectives and was set within the context of the risk appetite and strategic priorities agreed by the Board as appropriate for 2011.

In order for any award of annual bonus to be made under the above performance scorecard approach the Committee had to firstly satisfy itself that S T Gulliver had demonstrated personal adherence to and leadership in promoting HSBC Values. This overriding test assesses behaviour around the HSBC Values principles of being 'open, connected and dependable' and acting with 'courageous integrity'. The Committee determined that S T Gulliver had exhibited strong leadership and behaviour in this area and so met the required standard.

Equal weighting was given within the performance scorecard agreed for S T Gulliver for 2011 between financial and non-financial measures. In aggregate, in assessing the quantum of the 2011 annual bonus against the theoretical maximum opportunity of three times base salary, an overall score of 57.5% of that maximum opportunity was judged to have been achieved. The achievement of the financial measures was scored more highly than the non-financial measures. A summary of the assessment and rationale for the conclusions is set out below.

Financial (50% weighting – achieved 30%)
The Committee considered that in the key areas of capital strength (10%) and dividend progression (10%) HSBC had fully met the objectives agreed and so this element of financial performance had been achieved. In assessing the extent to which profit (10%) and cost performance improvement (10%) had been delivered, these were judged to have been met to the extent of 50%. The Committee assessed positively the profit performance across CMB globally, in RBWM outside the US and in GB&M outside Europe and the US. The unexpected increase in loan impairment charges in the third quarter in the consumer finance business in the US and the impact of the eurozone crisis on GB&M performance in Europe were the key drivers of underperformance. In terms of cost performance, this was assessed positively and broadly in line with the profit performance. With regard to 'return on equity' (5%) and 'return on risk-weighted assets' (5%), largely driven by the underperforming areas noted above, performance was below the targets set and thus those elements of the scorecard attracted no award.

Non-financial (50% weighting – achieved 27.5%)
Half the opportunity in this area related to strategy execution and out of a maximum possible 25% opportunity, 80% was judged to have been achieved. This strong performance reflected execution of planned divestments of underperforming and sub-scale businesses and, importantly, the sale of the upstate New York branches of the US commercial bank and the US credit and store-card businesses. The Committee noted that the portion of the annual bonus attributable to these latter two divestments would be clawed back in the event the agreed sales do not complete. Elsewhere in relation to 'Strategy Execution', the Committee noted good progress regarding organic expansion in mainland China, early stage development of the Wealth Management strategy and strong personal commitment to and success in supporting key client relationships.

The remainder of the opportunity within the non-financial portion of the performance scorecard related to 'People & Values' (10%) and 'Compliance & Reputation' (15%). The Committee awarded 75% of the available opportunity in respect of 'People and Values' noting the strong cohesion of the new senior management leadership team which was updated during 2011. With regard to 'Compliance and Reputation', in spite of the considerable progress made under S T Gulliver's leadership in rolling out Group-wide values awareness to avoid repetition of legacy compliance failings, the incidence of the PPI redress settlement, the mis-selling instances uncovered at NHFA Limited and continuing legacy legal and compliance issues in the US, the Committee determined that there could be no award under this element of the scorecard.

The same deliberations and assessments with regard to performance and adherence to HSBC Values were undertaken by the Committee with regard to the performance of A A Flockhart and I J Mackay. These are summarised on page 39.

A A Flockhart

The performance scorecard for A A Flockhart was weighted 45% financial, 55% non-financial. In aggregate, in assessing the quantum of the 2011 annual bonus against the theoretical maximum opportunity of three times base salary, an overall score of 66% of that maximum opportunity was judged to have been achieved. The Committee considered that performance against the financial measures of profit before tax, cost efficiency and return on risk-weighted assets had been met or exceeded in CMB, Latin America and the Middle East and North Africa. The performance in Europe against these targets was below plan. Capital generation targets were met in Europe and Latin America but were below target in the Middle East and North Africa. The Committee considered that good progress had been made against the non-financial targets of strategy execution and people, whilst the Project Merlin lending intentions had been exceeded both in terms of total and SME facilities. Notwithstanding strong management of the UK business during the riots in the summer of 2011 and the Middle East business during the political unrest across the region, due to the incidence of the PPI redress settlement and the mis-selling instances uncovered at NHFA Limited, the Committee determined that there could be no award under this element of the scorecard.

I J Mackay

The performance scorecard for I J Mackay was weighted 40% financial, 60% non-financial, reflecting the nature of his responsibilities. In aggregate, in assessing the quantum of the 2011 annual bonus against the theoretical maximum opportunity of three times base salary, an overall score of 52% of that maximum opportunity was judged to have been achieved. The Committee considered that performance against the financial targets of cost disciplines, functional operating costs and capital and liquidity management had been met or were in progress. The Committee considered that performance against the non-financial targets including people, reporting and planning was in progress. With regard to compliance and reputation, the incidence of the PPI redress settlement, the mis-selling instances uncovered at NHFA Limited and continuing legacy legal and compliance issues in the US, the Committee determined that there could be no award under this element of the scorecard.

Annual bonus awards

	2011 performance[1]				2010 performance			
	Non-deferred[2]		**Deferred**[2]		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[3]	**–**	**–**	**–**	**–**	142	142	213	213
D J Flint	**–**	**–**	**–**	**–**	560	560	840	840
A A Flockhart	**–**	**770**	**–**	**1,156**	362	362	542	542
S T Gulliver[4]	**–**	**862**	**–**	**1,294**	–	–	–	5,200
I J Mackay	**–**	**434**	**–**	**652**	12	12	18	18

1 The awards made in respect of 2011 performance will be delivered as described on page 38.
2 50% of the deferred and non deferred shares award are subject to a six-month retention period.
3 Retired as a Director on 27 May 2011.
4 S T Gulliver 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.

Group Performance Share Plan
2010 awards

In determining the level of GPSP award granted on 23 June 2011, the Committee used the 2010 long-term performance scorecard detailed below.

The financial targets were commensurate with the published targets for 2010. The assessment of performance against the financial measures was based upon the published outcome and the non-financial performance represented the considered view of the Committee.

In considering the overall performance against the scorecard a simple approach was adopted. Each measure in the financial targets section was given a weighting of 15% of the total and each measure in the non-financial section was given a weighting of 10%. Where individual targets consisted of a range, a straight-line approach was applied, with 50% weighting on entry to the range rising on a straight line basis to 100% weighting at the maximum performance target.

The only financial measure that exceeded the range for 2010 was capital strength with a core tier 1 capital ratio of 10.5%. The dividend payout fell within the range and the ranges for the 'return on equity' and 'cost efficiency ratio' financial measures were not met. Within the non-financial measures the Committee's considered view was that 'Strategy', 'Brand equity' and 'People' had been partially met and a partial weighting was applied. The target for the 'Compliance and reputation' measure was not met for 2010.

Using this approach, the initial guideline for the performance outcome for 2010 was calculated as 38.2% of the maximum face value of awards as detailed below.

Long-term scorecard and initial performance outcome 2010

Measure	Long-term target range (pre 2011)	Weighting	Actual 2010 Performance	Outcome
Return on equity	15% – 19%	15%	9.5%[1]	–
Cost efficiency ratio	48% – 52%	15%	55.2%[1]	–
Capital strength	7.5% – 10%	15%	10.5%[1]	15.0%
Dividends (payout ratio)	40% – 70%	15%	46.6%[1]	9.2%
Strategy	Judgement	10%	Judgement	4.0%
Brand equity	Top 3 rating and improve US$b value	10%	Top 3 rating but drop in value[2]	5.0%
Compliance and reputation	Judgement	10%	Not met	–
People	Judgement	10%	Judgement	5.0%
Mechanical performance outcome		100%		38.2%
Committee discretion				31.3%

1 As reported in Annual Report and Accounts 2010.
2 Based on results from the *Brand Finance® Banking 500 2011* Survey.

Notwithstanding this, during the shareholder consultation process in respect of the GPSP, the Committee had committed to shareholders that it would be conservative when determining the first awards to be made. Accordingly the Committee determined that the initial performance outcome should be reduced further to give a final performance outcome for 2010 of 31.3%.

This performance outcome was then applied to maximum face values (expressed as a percentage of salary) for each participant. The awards made in respect of 2010 are detailed below:

	Maximum face value of award	Performance outcome	Awards made
S T Gulliver	**600%**	**31.3%**	**187.8%**
A A Flockhart	**350%**	**31.3%**	**109.6%**
I J Mackay	**300%**	**31.3%**	**93.9%**

2011 awards

Awards to be granted in 2012 in respect of 2011 were assessed against the 2011 long-term scorecard detailed below.

The performance outcome under the 2011 long-term scorecard was again based upon the Committee's assessment of the achievement of the objectives as detailed below. This approach took into account performance under both financial and non-financial objectives and was set within the context of the risk appetite and strategic direction agreed by the Board.

Irrespective of the performance outcome, eligibility for a GPSP award requires confirmation of adherence to HSBC Values and all participants passed that test in 2011.

The weighting between financial and non-financial measures was set at 60% and 40% respectively. In aggregate an overall performance outcome of 50% of the scorecard was judged to have been achieved. A summary of the assessment and rationale for the conclusions is set out below.

Long-term scorecard and performance outcome 2011

Measure	Long-term target range	Weighting	Actual 2011 performance	Outcome
Return on equity	**12% – 15%**	**15%**	**10.9%**[1]	**–**
Cost efficiency ratio	**48% – 52%**	**15%**	**57.5%**[1]	**–**
Capital strength	**>10%**	**15%**	**10.1%** [1]	**15.0%**
Dividends (payout ratio)	**40% – 60%**	**15%**	**42.4%**[1]	**15.0%**
Strategy	**Judgement**	**10%**	**Judgement**	**7.5%**
Brand equity	**Top 3 rating and improve US$b value**	**10%**	**Top 3 rating but drop in value**[2]	**5.0%**
Compliance and reputation	**Judgement**	**10%**	**Not met**	**–**
People and values	**Judgement**	**10%**	**Judgement**	**7.5%**
Performance outcome		**100%**		**50.0%**

1 As reported in the *Annual Report and Accounts 2011*.
2 Based on results from *The Brand Finance® Banking 500 2012* Survey.

Financial (60% weighting – achieved 30%)

The Committee considered that in the key areas of 'capital strength' and 'dividend progression', HSBC was meeting its short-term targets and preparing carefully for the incoming higher standards embedded within the new regulatory regime. Accordingly these elements of longer-term financial performance were fully met.

The Group did not, however, meet its targets for return on equity or the cost efficiency ratio in 2011. The Committee considered the extent to which steps had been taken to improve both metrics over the longer term. In its deliberations, the Committee noted positively the progress under the five filters approach to divesting or closing underperforming and sub scale businesses, the business model and organisational efficiency programmes underway to deliver targeted cost savings, the focus in terms of capital deployment on sustainable opportunities within the larger economies in which the Group has meaningful positions and in the faster-growing markets which will drive incremental trade and investment flows, and lastly the concentration on businesses that take advantage of the connectivity of the Group's geographical reach and global business product platforms.

The Committee scored progress towards the return on equity and cost efficiency ratio targets but concluded at this early stage in the application of the GPSP it would not make any partial award for such achievement. This will be looked at again in future years.

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

With regard to 'Strategy', looking at progress made on addressing the longer term issues, the Committee looked favourably on the framework developed and being actioned to address underperforming and sub-scale businesses. Greater clarity has also been brought to the Board on the options to deliver more value from the Group's leading position in mainland China, to develop a larger Wealth Management business and to reshape the long-term business of HSBC in the US. Given the clarity delivered, the Committee awarded 75% achievement for this element.

On 'People and values', the Committee awarded 75% of the available opportunity of 10% to reflect how well and quickly the new management team has been constructed, positive actions regarding team building and succession planning, the roll out of the HSBC Values and the well thought out re-shaping of the organisational structure under the new leadership team.

In considering 'Brand equity' the Committee noted positively the recognition in February 2012 in the *Brand Finance® Banking 500 2012* report that HSBC was judged to be the most valuable banking brand in the world, rising from third place one year prior. Despite the no. 1 rating in the Brand Finance survey the value of the brand (as measured using Brand Finance's methodology) decreased during 2011 and accordingly only 50% achievement was awarded to this element.

Finally with regard to 'Compliance and reputation', the Committee concluded that as a consequence of the incidence of the PPI redress settlement, the mis-selling instances uncovered at NHFA Limited and continuing legacy legal and compliance issues in the US, there could be no award under this element of the scorecard.

The performance outcome of 50% was then applied to maximum face values (expressed as a percentage of salary) for each participant. The awards to be made in respect of 2011 are detailed below:

	Maximum face value of award	Performance outcome	Awards made
S T Gulliver	**600%**	**50%**	**300%**
I J Mackay	**200%**	**50%**	**100%**

Long-term scorecard 2012

The long-term scorecard against which performance will be assessed in 2012 is detailed below. The 2012 scorecard remains consistent with 2011, with the exception that the weighting for strategy has been increased from 10% to 20% to emphasise the importance of this element. This increase in weighting has been accommodated by a reduction from 10% to 5% for both 'Brand equity' and 'People and values'. Overall performance is to be judged on performance outcomes and adherence to HSBC Values.

Scorecard 2012

Measure	Long-term target range	Weighting
Return on equity	**12% – 15%**	**15%**
Cost efficiency ratio	**48% – 52%**	**15%**
Capital strength	**>10%**	**15%**
Progressive dividend payout within 40%-60% range	**40% – 60%**	**15%**
Strategy	**Judgement**	**20%**
Brand equity	**Top 3 rating and improve US$b value**	**5%**
Compliance and reputation	**Judgement**	**10%**
People and values	**Judgement**	**5%**
		100%

Executive Directors' variable pay summary 2011

The Committee is conscious of the different requirements for disclosing the various elements of variable pay. The table below simply details in one place the actual salary and variable pay awarded to the executive Directors in respect of the 2011 performance year.

		A A Flockhart			S T Gulliver			I J Mackay		
	Maximum Multiple	**2011 Multiple awarded**	**2011 £000**	2010 £000	**2011 Multiple awarded**	**2011 £000**	2010 £000	**2011 Multiple awarded**	**2011 £000**	2010 £000
Salary[1]	1.00	**1.00**	**975**	820	**1.00**	**1,250**	800	**1.00**	**700**	57
Annual bonus[2]	3.00	**1.98**	**1,926**	1,808	**1.72**	**2,156**	5,200	**1.55**	**1,086**	61
GPSP awards[3]	6.00	**–**	**–**	1,069	**3.00**	**3,750**	2,350	**1.00**	**700**	55
Total			**2,901**	3,697		**7,156**	8,350		**2,486**	173

1 As disclosed in the Directors' emoluments table below.
2 As disclosed in the Directors' remuneration table on page 42. The 2011 bonus will be fully delivered in HSBC shares, 60% of the bonus is deferred over a period of three years, 33% vests on the first and second anniversary of grant and 34% on the third anniversary of grant. During the vesting period the Committee has the authority to claw back part or all of the award.
3 As disclosed in the 2011 long-term scorecard and performance outcome on page 40. The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award. On vesting the net of tax shares must be retained until the participant retires.

Executive Directors' emoluments and remuneration 2011

The following table shows the 2011 emoluments of the Group Chairman and executive Directors of HSBC Holdings, with annual bonus disclosed on an actual paid basis, pursuant to section 421 of the UK Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

	V H C Cheng[1]		D J Flint		A A Flockhart		S T Gulliver		I J Mackay[1]	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
£000										
Salary	**382**	775	**1,500**	845	**975**	820	**1,250**	800	**700**	57
Allowances[2]	**142**	193	**750**	434	**366**	–	**527**	154	**364**	36
Benefits in kind[3]	**133**	311	**98**	8	**237**	629	**266**	17	**363**	27
Bonus[4]	**124**	284	**1,054**	1,805	**1,627**	1,385	**4,559**	2,934	**446**	24
Total emoluments	**781**	1,563	**3,402**	3,092	**3,205**	2,834	**6,602**	3,905	**1,873**	144
US$000										
Total emoluments	**1,252**	2,414	**5,452**	4,775	**5,136**	4,377	**10,581**	6,031	**3,002**	222

Summary Directors' Remuneration Report *(continued)*

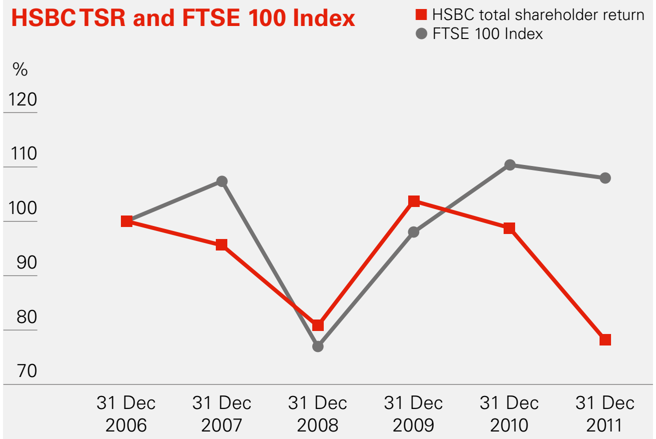
The following table shows the 2011 total remuneration of the Group Chairman and executive Directors of HSBC Holdings with annual bonus disclosed on a 2011 performance year basis, pursuant to the UK Listing Rules. Explanations of the constituent parts of the bonus calculated pursuant to the UK Companies Act 2006 and the UK Listing Rules are given in footnotes 4 and 5, respectively.

	V H C Cheng[1]		D J Flint		A A Flockhart		S T Gulliver		I J Mackay[1]	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
£000										
Salary, allowances and benefits in kind	**657**	1,279	**2,348**	1,287	**1,578**	1,449	**2,043**	971	**1,427**	120
Bonus[5]	**–**	711	**–**	2,800	**1,926**	1,808	**2,156**	5,200	**1,086**	61
Total remuneration	**657**	1,990	**2,348**	4,087	**3,504**	3,257	**4,199**	6,171	**2,513**	181
US$000										
Total remuneration	**1,053**	3,073	**3,763**	6,312	**5,616**	5,030	**6,729**	9,530	**4,027**	280

1 V H C Cheng retired as a Director on 27 May 2011 and I J Mackay was appointed as a Director on 3 December 2010.
2 Allowances include an executive allowance paid to fund personal pension arrangements.
3 Benefits in kind include provision of medical insurance, other insurance cover, accountancy advice and travel assistance. S T Gulliver is also provided with HSBC owned accommodation whilst in Hong Kong. In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the taxable rental value of the property is shown for the whole period from 4 August 2011 to 31 December 2011 notwithstanding that it is only occupied when S T Gulliver is in Hong Kong. I J Mackay relocated to London and he received temporary accommodation for him and his family together with other normal relocation benefits. Prior to relocating to the UK from Hong Kong, and whilst being subject to tax in Hong Kong, A A Flockhart also incurred a tax liability in the UK as a result of a number of business trips to the UK at the request of the Group. This liability was covered by HSBC.
4 Where applicable, bonus comprises: (i) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares that will vest on 15 March 2012 arising from the 2010 bonus awarded in March 2011 that was partly deferred into awards of HSBC Holdings Restricted Shares, as follows: V H C Cheng, £53,000, D J Flint, £219,000, A A Flockhart, £141,000, S T Gulliver, £1,353,000 and I J Mackay, £5,000; (ii) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares that will vest on 5 March 2012 arising from the 2009 bonus awarded in March 2010 that was fully deferred into awards of HSBC Restricted Shares as follows: D J Flint, £547,000, A A Flockhart, £529,000 and S T Gulliver, £2,343,000 and (iii) 40% of the annual bonus in respect of the 2011 performance year that is non-deferred. The non-deferred bonus is payable in HSBC Holdings Restricted Shares, 50% of which are subject to a six-month retention period. Full details are set out above and on page 259 of the *Annual Report and Accounts 2011*.
5 The bonus for 2011 comprises the deferred and non-deferred bonus, details of which are set out above and on page 259 of the *Annual Report and Accounts 2011*.

Funding
The dilution limits set out in the HSBC share plans comply with the Association of British Insurers' guidelines. To date, all awards of Performance Shares and Restricted Shares vesting 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 Restricted Shares awards and GPSP awards that cannot be satisfied from shares already held by employee benefit trusts.

HSBC TSR and FTSE 100 Index



Source: International Data Corporation

Total shareholder return
Pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graph below shows the TSR performance against the FTSE 100 Index for the five-year period ended 31 December 2011. The FTSE 100 Index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.

Pensions
The normal retirement age for executive Directors is 65. The pension entitlements of the executive Directors for 2011 are set out on page 45.

Senior management changes
V H C Cheng, Chairman of HSBC Bank (China) Company Limited, retired from the Group on 27 May 2011.

M F Geoghegan stepped down from the Board and his Group Chief Executive position on 31 December 2010. Upon retirement on 31 March 2011, M F Geoghegan received in lieu of the remaining nine months' notice period required to terminate the service agreement, £1,027,500 and a pension contribution equal to £401,250. M F Geoghegan provided consultancy to HSBC for a period of three months from 1 April 2011 and was paid a consultancy fee of £200,000, which he stated he intended to donate to charity. No annual variable pay award has been recommended for 2011.

Share ownership guidelines

To ensure appropriate alignment with our shareholders, we operate a formal share ownership policy, expressed as a number of shares, for executive Directors and the Group Managing Directors. The Committee considers that material share ownership by executives creates a community of interest between senior management and shareholders.

Under the existing guidelines, the shareholding is expected to be achieved within five years of the executive's appointment. The executive Directors and Group Managing Directors are required to build and retain the following shareholdings:

	At 31 December				
		2011		2010	
	Shares to be held[1] (Number)	**Shares held[1] (Number)**	**Estimated value £000**	Shares held[1] (Number)	Estimated value £000
D J Flint	400,000	**626,342**	**3,076**	494,933	3,223
A A Flockhart	200,000	**1,420,535**	**6,976**	1,066,450	6,944
S T Gulliver	600,000	**4,892,014**	**24,025**	4,279,244	27,862
I J Mackay	200,000	**424,735**	**2,086**	287,719	1,873
Group Managing Directors	125,000	**–[2]**	**–**	–[2]	–

1 For the purposes of the guidelines, unvested awards of Restricted Shares and GPSP awards are included.
2 All of the Group Managing Directors exceed the expected holdings.

The Committee monitors compliance with the share ownership guidelines annually. The Committee has full discretion in determining any penalties in cases of non-compliance, which could include a reduction of future awards of GPSP and/or an increase in the proportion of the annual variable pay that is deferred into shares.

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 & HSBC)**	**Compensation on termination by the company without notice or cause**
V H C Cheng	15 March 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits.
D J Flint	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits.
A A Flockhart	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award 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.
S T Gulliver[1]	10 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award 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	4 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award 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 The other benefits as part of the payment in lieu of notice do not include the accommodation and car provided in Hong Kong.

Other directorships

Executive Directors, if so authorised by either the Nomination Committee or the Board, may accept appointments as non-executive Directors of suitable companies which are not part of HSBC. Approval will not be given for executive Directors to accept a non-executive directorship of more than one FTSE 100 company nor the chairmanship of such a company. When considering a non-executive appointment, the Nomination Committee or Board will take into account the expected time commitment of such appointment. The time commitment for executive Directors' external appointments will be reviewed as part of the annual Board review. Any remuneration receivable in respect of an external appointment is normally paid to HSBC, unless otherwise approved by the Committee. D J Flint was a non-executive Director of BP p.l.c. until 14 April 2011 and, during his directorship, elected to donate his fees to charity.

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 2012, M K T Cheung, J R Lomax, Sir Simon Robertson, J L Thornton and Sir Brian Williamson;
- in 2013, R A Fairhead and G Morgan; and
- in 2014, S A Catz, L M L Cha, J D Coombe, J W J Hughes-Hallett, W S H Laidlaw and N R N Murthy.

Dr J Faber and J P Lipsky were appointed as non-executive Directors with effect from 1 March 2012. Subject to their re-election by shareholders at the Annual General Meeting in 2012, their terms will expire in 2015. Sir Brian Williamson and G Morgan will retire at the Annual General Meeting in 2012 and will not offer themselves for re-election.

Summary Directors' Remuneration Report *(continued)*

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 2011, is £95,000 per annum.

A fee of £45,000 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

	Chairman £000	Member £000	Number of meetings held during 2011
Group Audit Committee	**50**	**30**	**7**
Group Risk Committee	**50**	**30**	**6**
Group Remuneration Committee	**50**	**30**	**9**
Nomination Committee	**40**	**25**	**4**
Corporate Sustainability Committee	**40**	**25**	**4**

The total of fees paid to each of the non-executive Directors of HSBC Holdings for 2011, being emoluments for the purposes of the UK Companies Act 2006, is as follows:

Fees paid to non-executive Directors

	2011 £000	2010 £000
S A Catz	**95**	65
L M L Cha[1]	**465**	–
M K T Cheung[2]	**165**	112
J D Coombe	**205**	130
R A Fairhead	**200**	152
J W J Hughes-Hallett	**150**	105
W S H Laidlaw	**125**	85
J R Lomax	**155**	102
G Morgan	**125**	85
N R N Murthy	**135**	91
Sir Simon Robertson	**166**	115
J L Thornton[3]	**1,081**	1,068
Sir Brian Williamson	**120**	87
Total[4]	**3,187**	2,329
Total (US$000)[4]	**5,108**	3,597

1 Includes fees as non-executive Director and Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited during the year and a member of its Nomination Committee from 1 October 2011.
2 Includes fees as non-executive Director and member of the Audit Committee of Hang Seng Bank Limited.
3 Includes fees as non-executive Chairman of HSBC North America Holdings Inc.
4 Total fees for 2010 include the fees of non-executive Directors who retired in that year.

Employee compensation and benefits

Set out below are details of remuneration paid to Senior Management (being executive Directors and Group Managing Directors of HSBC Holdings) for the year ended 31 December 2011 or for the period of appointment as a Director or Group Managing Director.

Emoluments of Senior Management

	Senior management £000
Basic salaries, allowances and benefits in kind	**17,191**
Pension contributions	**860**
Bonuses paid or receivable	**37,321**
Inducements to join paid or receivable	**–**
Compensation for loss of office	**–**
Total	**55,372**
Total (US$000)	**88,740**

The aggregate emoluments of Senior Management for the year ended 31 December 2011 was US$88,740,342. The emoluments of Senior Management were within the following bands:

	Number senior management
£0 – £1,000,000	**2**
£1,000,001 – £2,000,000	**1**
£2,000,001 – £3,000,000	**3**
£3,000,001 – £4,000,000	**8**
£4,000,001 – £5,000,000	**1**
£7,000,001 – £8,000,000	**1**
£8,000,001 – £9,000,000	**1**

The aggregate amount set aside or accrued to provide pension, retirement or similar for executive Directors and Senior Management for the year ended 31 December 2011 was US$1,377,618.

Set out below are details of remuneration paid to the five individuals whose emoluments were the highest in HSBC (including one executive Director and three Group Managing Directors of HSBC Holdings), for the year ended 31 December 2011.

Emoluments of the five highest paid employees

	5 highest paid employees £000
Basic salaries, allowances and benefits in kind	**5,244**
Pension contributions	**391**
Bonuses paid or receivable	**20,193**
Inducements to join paid or receivable	**1,892**
Compensation for loss of office	**–**
Total	**27,720**
Total (US$000)	**44,425**

The emoluments of the five highest paid employees were within the following bands:

	Number of 5 highest paid employees
£3,900,001 – £4,000,000	**1**
£4,200,001 – £4,300,000	**1**
£4,300,001 – £4,400,000	**1**
£7,100,001 – £7,200,000	**1**
£8,000,001 – £8,100,000	**1**

Remuneration of eight highest paid senior executives (members of the GMB, but not Directors of HSBC Holdings plc)

Employee	1 £000	2 £000	3 £000	4 £000	5 £000	6 £000	7 £000	8 £000
Fixed								
Cash based	650	623	650	650	654	650	481	624
Total fixed	650	623	650	650	654	650	481	624
Annual bonus[1]								
Cash	–	375	–	–	493	–	271	374
Non-deferred shares[2]	1,812	375	451	717	493	570	271	374
Deferred cash	–	563	–	–	740	–	407	562
Deferred shares[3]	2,718	563	677	1,076	740	854	407	562
Total annual bonus	4,530	1,876	1,128	1,793	2,466	1,424	1,356	1,872
Long-term incentive plan (GPSP)								
Deferred shares	1,950	1,250	1,950	975	–	975	724	–
Total variable pay	6,480	3,127	3,078	2,768	2,466	2,399	2,081	1,872
Total remuneration	7,130	3,749	3,728	3,418	3,120	3,049	2,562	2,496
US$000								
Total remuneration	11,427	6,009	5,975	5,477	5,000	4,886	4,106	4,000

1 Annual bonus in respect of performance year 2011.
2 Awards vested, subject to a six-month retention period. For UK-based employees 50% of the awards vested are subject to a six-month retention period.
3 For UK based employees 50% of the deferred shares under the annual bonus are subject to a six-month retention period post vesting.

Pensions

V H C Cheng retired on 27 May 2011 and until that date was a member of the Hong Kong Special Administrative Region Mandatory Provident Fund ('MPF'). Until 27 May 2011 Mr Cheng received an executive allowance of 25% of annual basic salary, less the mandatory contributions to the MPF by both the employer and employee, to fund personal pension arrangements of HK$1,185,578. Until 27 May 2011, the mandatory employer contribution to the MPF in respect of Mr Cheng was HK$5,000.

D J Flint received an executive allowance of 50% of annual basic salary in lieu of personal pension arrangements. The executive allowance for 2011 amounted to £750,000.

A A Flockhart received employer contributions of 50% of basic salary into a personal pension plan from 1 January 2011 to 31 March 2011. From 1 April 2011 Mr Flockhart received employer contributions of 1.8% of basic salary into a personal pension plan and an executive allowance of 48.2% of basic salary. The employer contributions and the executive allowance for the whole of 2011 amounted to £487,500.

S T Gulliver received employer contributions of 19.2% of basic salary into a personal pension plan and an executive allowance of 30.8% of basic salary from 1 January 2011 to 31 March 2011. From 1 April 2011 Mr Gulliver received employer contributions of 4% of basic salary into a personal pension plan and an executive allowance of 46% of basic salary. The employer contributions and the executive allowance for the whole of 2011 amounted to £625,000.

I J Mackay received an executive allowance of 50% of basic annual salary in lieu of personal pension arrangements. The executive allowance for 2011 amounted to £350,000.

Defined Benefit Pension arrangements

	Accrued annual pension at 31 December 2011 £000	**Increase in accrued pension during 2011 £000**	**Increase in accrued pension during 2011, excluding any increase for inflation £000**	Transfer value of accrued pension at 31 December 2010[1] £000	**Transfer value of accrued pension at 31 December 2011[1] £000**	**Increase of transfer value of accrued pension (less personal contributions) in 2011[1] £000**	**Transfer value (less personal contributions) at 31 December 2011 relating to increase in accrued pension during 2011, excluding any increase for inflation[1] £000**
A A Flockhart[2]	307	24	12	4,974	5,638	664	236

1 The transfer value represents a liability of HSBC's pension fund 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. The ISRBS retains a liability for a contingent spouse's pension of £134,000 per annum as at 31 December 2011.

The following table shows unfunded pension payments, in respect of which provision has been made, during 2011 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.

Unfunded pension payments

	2011 £	2010 £
B H Asher	**106,441**	101,858
C F W de Croisset	**250,910**	237,662
R Delbridge	**153,099**	146,507
Lord Green	**40,946**	2,992
Sir Brian Pearse	**63,844**	61,095
Sir William Purves	**112,679**	107,827
	727,919	657,941

Share Plans

At 31 December 2011, the undernamed Directors held options, awards of Performance Shares and Restricted Shares under the HSBC Share Plan and conditional awards of shares under the GPSP 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 from[1]	Exercisable until	**At 1 Jan 2011**	**At 31 Dec 2011**
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**	**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 2011 was £4.911. The highest and lowest market values per ordinary share during the year were £7.395 and £4.564. 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.

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 held at 1 Jan 2011**	**Awards vested during year[1,2] Number**	**Awards vested during year[1,2] Monetary value £000**	**Awards held at 31 Dec 2011**
V H C Cheng	3 Jun 2008	2011	**163,188**	**35,433**	**230**	**–**[3]
D J Flint	3 Jun 2008	2011	**470,596**	**102,184**	**662**	**–**
A A Flockhart	3 Jun 2008	2011	**160,474**	**34,844**	**226**	**–**
S T Gulliver	3 Jun 2008	2011	**69,917**	**15,181**	**98**	**–**

Vesting of these awards of Performance Shares is subject to the achievement of corporate performance conditions. 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.

1 The performance conditions of the total shareholder return element of the award were partially met and the following part of the awards vested on 4 April 2011, when the market value per share was £6.48: V H C Cheng, 35,024 shares; D J Flint, 101,003 shares; A A Flockhart, 34,442 shares; and S T Gulliver, 15,006 shares. The following awards representing the fourth interim dividend for 2010 vested on 5 May 2011, when the market value per share was £6.46: V H C Cheng, 409 shares; D J Flint, 1,181 shares; A A Flockhart, 402 shares; and S T Gulliver, 175 shares. The market value per share on the date of the award, 3 June 2008, was £8.56.
2 The performance conditions for the earnings per share, economic profit 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 4 April 2011: V H C Cheng, 129,412 shares; D J Flint, 373,193 shares; A A Flockhart, 127,259 shares; and S T Gulliver, 55,445 shares. As a consequence, the fourth interim dividend for 2010 did not accrue on the forfeited shares.
3 Interest at 27 May 2011 – 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 held at 1 Jan 2011	Awards made during year Number	Awards made during year Monetary value £000	Awards vested during year Number	Awards vested during year Monetary value £000	Awards held at 31 Dec 2011[1]
V H C Cheng	2 Mar 2009	2012	**510,226**	–	–	–	–	**514,129**[2]
	1 Mar 2010	2011-2013[3]	**198,773**	–	–	–	–	**202,637**[2]
	15 Mar 2011	2012-2014	–	**52,528**[5]	**339**	**21,011**[6]	**136**	**31,885**[2]
D J Flint	1 Mar 2010	2011-2013[3]	**316,252**	–	–	**105,162**[4]	**713**	**220,201**
	15 Mar 2011	2012-2014	–	**215,383**[5]	**1,391**	**86,153**[6]	**557**	**133,280**
A A Flockhart	3 Mar 2008	2011	**15,572**	–	–	**15,875**[7]	**102**	–
	2 Mar 2009	2012	**514,960**	–	–	–	–	**535,162**
	1 Mar 2010	2011-2013[3]	**305,806**	–	–	**101,688**[4]	**689**	**212,927**
	15 Mar 2011	2012-2014	–	**139,079**[5]	**898**	**55,632**[6]	**359**	**86,062**
S T Gulliver	3 Mar 2008	2009-2011	**192,796**	–	–	**194,270**[8]	**1,317**	–
	1 Mar 2010	2011-2013[3]	**1,355,371**	–	–	**450,694**[4]	**3,056**	**943,723**
	15 Mar 2011	2012-2014	–	**800,000**[9]	**5,168**	–	–	**825,072**
I J Mackay	31 Jul 2007	2009-2011[10]	**47,679**	–	–	**49,035**[11]	**298**	–
	31 Mar 2008	2011	**46,252**	–	–	**47,152**[12]	**302**	–
	2 Mar 2009	2012	**100,309**	–	–	–	–	**104,244**
	1 Mar 2010	2011-2013[3]	**59,262**	–	–	**19,706**[4]	**134**	**41,263**
	15 Mar 2011	2012-2014	–	**58,103**[5]	**375**	**23,241**[6]	**150**	**35,954**

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, 2010 and 2011 are categorised as the interests of a beneficial owner.

1 Includes additional shares arising from scrip dividends.
2 Interest at 27 May 2011– date of retirement.
3 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.
4 At the date of vesting, 28 February 2011, the market value per share was £6.78. The market value per share on the date of the award, 1 March 2010, was £6.82. Market value is the middle market closing price derived from the London Stock Exchange Daily Official List on the relevant date.
5 At the date of the award, 15 March 2011, the market value per share was £6.46. The number of shares comprises a deferred award and non-deferred award of Restricted Shares. In respect of the deferred award, 33% 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.
6 The non-deferred award vested immediately on 15 March 2011 and is subject to a 6 month retention period. At the date of vesting, the market value per share was £6.46.
7 15,691 shares vested on 31 March 2011 when the market value per share was £6.41. The market value per share on the date of the award, 3 March 2008, was £7.90. An award of 184 shares representing the fourth interim dividend for 2010 vested on 5 May 2011 when the market value per share was £6.46.
8 At the date of vesting, 28 February 2011, the market value per share was £6.78. The market value per share on the date of the award, 3 March 2008, was £7.90.
9 At the date of the award, 15 March 2011, the market value per share was £6.46. The number of shares comprises a deferred award of Restricted Shares. 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.
10 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.
11 49,035 shares vested on 1 August 2011 when the market value per share was £6.08.
12 46,606 shares vested on 31 March 2011 when the market value per share was £6.41. The market value per share on the date of the award, 31 March 2008, was £8.30. An award of 546 shares representing the fourth interim dividend for 2010 vested on 5 May 2011 when the market value per share was £6.46.

Conditional Awards under the GPSP
HSBC Share Plan 2011
HSBC Holdings ordinary shares of US$0.50

	Date of award	Year in which awards may vest	Awards held at 1 Jan 2011	Awards made during year[1] Number	Awards made during year[1] Monetary value £000	Awards held at 31 Dec 2011[2]
A A Flockhart	23 Jun 2011	2016	–	**176,519**	**1,061**	**178,373**
S T Gulliver	23 Jun 2011	2016	–	**388,044**	**2,332**	**392,119**
I J Mackay	23 Jun 2011	2016	–	**108,487**	**652**	**109,626**

The Group Performance Share Plan ('GPSP') is the long-term incentive plan under the HSBC Share Plan 2011. Vesting of GPSP awards is normally subject to the Director remaining an employee on the vesting date. Any shares (net of tax) which the Director becomes entitled to on the vesting date are subject to a retention requirement until cessation of employment. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as the interests of a beneficial owner.

1 Conditional awards of shares made under the GPSP. At the date of award, 23 June 2011, the market value per share was £6.01.
2 Includes additional shares arising from scrip dividends.

Summary Consolidated Income Statement

Year ended 31 December	2011 US$m	2010 US$m	2009 US$m
Interest income	**63,005**	58,345	62,096
Interest expense	**(22,343)**	(18,904)	(21,366)
Net interest income	**40,662**	39,441	40,730
Fee income	**21,497**	21,117	21,403
Fee expense	**(4,337)**	(3,762)	(3,739)
Net fee income	**17,160**	17,355	17,664
Trading income excluding net interest income	**3,283**	4,680	6,236
Net interest income on trading activities	**3,223**	2,530	3,627
Net trading income	**6,506**	7,210	9,863
Changes in fair value of long-term debt issued and related derivatives	**4,161**	(258)	(6,247)
Net income/(expense) from other financial instruments designated at fair value	**(722)**	1,478	2,716
Net income/(expense) from financial instruments designated at fair value	**3,439**	1,220	(3,531)
Gains less losses from financial investments	**907**	968	520
Dividend income	**149**	112	126
Net earned insurance premiums	**12,872**	11,146	10,471
Other operating income	**1,766**	2,562	2,788
Total operating income	**83,461**	80,014	78,631
Net insurance claims incurred and movement in liabilities to policyholders	**(11,181)**	(11,767)	(12,450)
Net operating income before loan impairment charges and other credit risk provisions	**72,280**	68,247	66,181
Loan impairment charges and other credit risk provisions	**(12,127)**	(14,039)	(26,488)
Net operating income	**60,153**	54,208	39,693
Employee compensation and benefits	**(21,166)**	(19,836)	(18,468)
General and administrative expenses	**(17,459)**	(15,156)	(13,392)
Depreciation and impairment of property, plant and equipment	**(1,570)**	(1,713)	(1,725)
Amortisation and impairment of intangible assets	**(1,350)**	(983)	(810)
Total operating expenses	**(41,545)**	(37,688)	(34,395)
Operating profit	**18,608**	16,520	5,298
Share of profit in associates and joint ventures	**3,264**	2,517	1,781
Profit before tax	**21,872**	19,037	7,079
Tax expense	**(3,928)**	(4,846)	(385)
Profit for the year	**17,944**	14,191	6,694
Profit attributable to shareholders of the parent company	**16,797**	13,159	5,834
Profit attributable to non-controlling interests	**1,147**	1,032	860

	US$	US$	US$
Basic earnings per ordinary share	**0.92**	0.73	0.34
Diluted earnings per ordinary share	**0.91**	0.72	0.34

Summary Consolidated Statement of Comprehensive Income

Year ended 31 December	2011 US$m	2010 US$m	2009 US$m
Profit for the year	**17,944**	14,191	6,694
Other comprehensive income/(expense)			
Available-for-sale investments	**674**	5,835	10,817
– fair value gains	**1,279**	6,368	9,821
– fair value gains transferred to income statement on disposal	**(820)**	(1,174)	(648)
– amounts transferred to the income statement in respect of impairment losses	**583**	1,118	2,391
– income taxes	**(368)**	(477)	(747)
Cash flow hedges	**187**	(271)	772
– fair value gains/(losses)	**(581)**	(178)	481
– fair value (gains)/losses transferred to income statement	**788**	(164)	808
– income taxes	**(20)**	71	(517)
Actuarial gains/(losses) on defined benefit plans	**1,009**	(61)	(2,608)
– before income taxes	**1,267**	(60)	(3,586)
– income taxes	**(258)**	(1)	978
Share of other comprehensive income/(expense) of associates and joint ventures	**(710)**	107	149
Exchange differences	**(2,865)**	(567)	4,975
Income tax attributable to exchange differences	**165**	–	–
Other comprehensive income/(expense) for the year, net of tax	**(1,540)**	5,043	14,105
Total comprehensive income for the year	**16,404**	19,234	20,799
Total comprehensive income for the year attributable to:			
– shareholders of the parent company	**15,366**	18,087	19,529
– non-controlling interests	**1,038**	1,147	1,270
	16,404	19,234	20,799

Summary Consolidated Balance Sheet

At 31 December	2011 US$m	2010 US$m
Assets		
Cash and balances at central banks	**129,902**	57,383
Items in the course of collection from other banks	**8,208**	6,072
Hong Kong Government certificates of indebtedness	**20,922**	19,057
Trading assets	**330,451**	385,052
Financial assets designated at fair value	**30,856**	37,011
Derivatives	**346,379**	260,757
Loans and advances to banks	**180,987**	208,271
Loans and advances to customers	**940,429**	958,366
Financial investments	**400,044**	400,755
Assets held for sale	**39,558**	1,991
Other assets	**48,699**	41,260
Current tax assets	**1,061**	1,096
Prepayments and accrued income	**10,059**	11,966
Interests in associates and joint ventures	**20,399**	17,198
Goodwill and intangible assets	**29,034**	29,922
Property, plant and equipment	**10,865**	11,521
Deferred tax assets	**7,726**	7,011
Total assets	**2,555,579**	2,454,689
Liabilities and equity		
Liabilities		
Hong Kong currency notes in circulation	**20,922**	19,057
Deposits by banks	**112,822**	110,584
Customer accounts	**1,253,925**	1,227,725
Items in the course of transmission to other banks	**8,745**	6,663
Trading liabilities	**265,192**	300,703
Financial liabilities designated at fair value	**85,724**	88,133
Derivatives	**345,380**	258,665
Debt securities in issue	**131,013**	145,401
Liabilities of disposal groups held for sale	**22,200**	86
Other liabilities	**27,967**	27,964
Current tax liabilities	**2,117**	1,804
Liabilities under insurance contracts	**61,259**	58,609
Accruals and deferred income	**13,106**	13,906
Provisions	**3,324**	2,138
Deferred tax liabilities	**1,518**	1,093
Retirement benefit liabilities	**3,666**	3,856
Subordinated liabilities	**30,606**	33,387
Total liabilities	**2,389,486**	2,299,774
Equity		
Called up share capital	**8,934**	8,843
Share premium account	**8,457**	8,454
Other equity instruments	**5,851**	5,851
Other reserves	**23,615**	25,414
Retained earnings	**111,868**	99,105
Total shareholders' equity	**158,725**	147,667
Non-controlling interests	**7,368**	7,248
Total equity	**166,093**	154,915
Total equity and liabilities	**2,555,579**	2,454,689

Douglas Flint
Group Chairman

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 2011*. 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 2011* 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 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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 2011 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:

	2011 US$000	2010 US$000	2009 US$000
Fees	**5,108**	3,597	3,756
Salaries and other emoluments	**12,906**	12,841	11,835
Bonuses	**12,516**	14,294	–
	30,530	30,732	15,591
Vesting of Long-Term Incentive awards	**2,596**	8,523	1,579

In addition, there were payments under retirement benefit agreements with former Directors of US$1,166,580 (2010: US$1,016,089). The provision at 31 December 2011 in respect of unfunded pension obligations to former Directors amounted to US$18,006,894 (2010: US$17,628,508).

During the year, aggregate contributions to pension schemes in respect of Directors were US$373,310 (2010: US$1,055,582). Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Group Remuneration Committee. Details of Directors' remuneration, share options and awards under the HSBC Share Plan and HSBC Share Plan 2011 are included in the 'Summary Directors' Remuneration Report' on pages 36 to 47.

3. Related party transactions

Particulars of advances (loans and quasi-loans), credits and guarantees entered into by subsidiaries of HSBC Holdings during 2011 with Directors, disclosed pursuant to section 413 of the Companies Act 2006, are shown below:

	At 31 December	
	2011 US$m	2010 US$m
Advances and credits	**8**	9

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.

	2011		2010	
	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
Key management personnel[1]				
Advances and credits	**112**	**120**	901	1,681
Guarantees	**12**	**12**	27	31

1 Includes key management personnel, close family members of key management personnel and entities which are controlled, or jointly controlled 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 2011, basic earnings per share was US$0.92 (2010: US$0.73; 2009: US$0.34) and diluted earnings per share was US$0.91 (2010: US$0.72; 2009: US$0.34).

5. Called up share capital

Issued and fully paid

	2011 US$m	2010 US$m
HSBC Holdings ordinary shares[1]	**8,934**	8,843

HSBC Holdings ordinary shares of US$0.50 each	**Number**	**US$m**
At 1 January 2011	**17,685,155,902**	**8,843**
Shares issued under HSBC employee share plans	**11,354,577**	**6**
Shares issued in lieu of dividends	**170,575,167**	**85**
At 31 December 2011	**17,868,085,646**	**8,934**

1 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 2011 and 31 December 2011	**1,450,000**	**–**

HSBC Holdings non-cumulative preference shares of £0.01 each

The one non-cumulative sterling preference share of £0.01 ('Sterling Preference Share') was in issue from 29 December 2010 and throughout 2011 and is held by a subsidiary of HSBC Holdings. Dividends on the Sterling Preference Share in issue are paid quarterly at the sole and absolute discretion of the Board. The Sterling Preference Share in issue carries no rights to conversion into ordinary shares of HSBC Holdings and no rights to attend and vote at general meetings of shareholders of HSBC Holdings. HSBC Holdings may redeem it in whole at any time at the option of the Company.

6. Events after the balance sheet date

On 24 January 2012, we announced an agreement to sell our banking operations in Costa Rica, El Salvador and Honduras to Banco Davivienda S.A., a Colombian-listed banking group, for a total consideration of US$801 million in cash. The transaction is subject to regulatory and other approvals and is expected to complete in the fourth quarter of 2012. The assets and associated liabilities of these operations were classified as held for sale at 31 December 2011.

A fourth interim dividend for 2011 of US$0.14 per ordinary share (a distribution of approximately US$2,515 million) was declared by the Directors after 31 December 2011.

The *Annual Report and Accounts 2011* was approved by the Board of Directors on 27 February 2012 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:

		Year ended 31 December	
		2011	2010
Closing:	HK$/US$	**7.768**	7.773
	£/US$	**0.646**	0.644
Average:	HK$/US$	**7.785**	7.769
	£/US$	**0.624**	0.648

8. Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2011*. It is not the Group's statutory accounts. It does not contain the full text of the Directors' Report 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 2011*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2011* from Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts 2011* 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 56.

The *Annual Report and Accounts 2011* may be viewed on our web site: 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 on 7 March 2012.

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

We have examined the summary financial statement for the year ended 31 December 2011 set out on pages 30 to 52.

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 2011* 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 2011* 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 2011* 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 opinions on those financial statements, the Directors' Report and the Directors' Remuneration Report.

Opinion on summary financial statement

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 2011 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 (27 February 2012) and the date of this statement.

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

7 March 2012

Shareholder Information

Fourth interim dividend for 2011

The Directors have declared a fourth interim dividend for 2011 of US$0.14 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 27 March 2012. The timetable for the dividend is:

Announcement	27 February 2012
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	14 March 2012
ADSs quoted ex-dividend in New York	14 March 2012
Record date in Hong Kong	15 March 2012
Record date in London, New York, Paris and Bermuda[1]	16 March 2012
Mailing of *Annual Report and Accounts 2011* and/or *Annual Review 2011*, Notice of Annual General Meeting and dividend documentation	27 March 2012
Final date for receipt by registrars of forms of election, Investor Centre electronic instructions and revocations of standing instructions for scrip dividends	19 April 2012
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	23 April 2012
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	2 May 2012

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

Interim dividends for 2012

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 2012 will be US$0.09 per ordinary share. The proposed timetables for the dividends in respect of 2012 are:

	Interim dividends for 2012			
	First	**Second**	**Third**	**Fourth**
Announcement	30 April 2012	30 July 2012	9 October 2012	4 March 2013
Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda	16 May 2012	15 August 2012	24 October 2012	20 March 2013
ADSs quoted ex-dividend in New York	16 May 2012	15 August 2012	24 October 2012	20 March 2013
Record date in Hong Kong	17 May 2012	16 August 2012	25 October 2012	21 March 2013
Record date in London, New York, Paris and Bermuda[1]	18 May 2012	17 August 2012	26 October 2012	22 March 2013
Payment date	5 July 2012	4 October 2012	12 December 2012	8 May 2013

1 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 2012 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 25 May 2012 at 11.00 am.

An informal meeting of shareholders will be held at 1 Queen's Road Central, Hong Kong on Monday, 21 May 2012 at 4.30 pm.

Interim Management Statements and Interim Results

Interim Management Statements are expected to be issued on or around 8 May 2012 and 5 November 2012. The interim results for the six months to 30 June 2012 are expected to be issued on 30 July 2012.

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 56. 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

Telephone: 44 (0)20 7991 8041
Facsimile: 44 (0)845 587 0225
Email: investorrelations@hsbc.com

SVP Investor Relations
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Annual Review 2011

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

For those in Europe, the Middle East and Africa:
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For those in Asia-Pacific:
Communications (Asia)
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

For those in the Americas:
Employee 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. 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 56. Printed copies will be provided without charge.

Chinese translation

A Chinese translation of this *Annual Review* is available upon request after 27 March 2012 from the Registrars:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
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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2012年3月27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:

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Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2011* from Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC – North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; or Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France.

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Page 2 Group Chairman; page 7 Group Chief Executive: George Brooks

Pages 4-5 Board of Directors: all photographs by George Brooks, except Sandy Flockhart by Charles Best; Safra Catz, Joachim Faber, Gwyn Morgan and David Shaw by Patrick Leung

Pages 8-9 Group Management Board: all photographs by Patrick Leung, except Stuart Gulliver and Iain Mackay by George Brooks; Sandy Flockhart by Charles Best

Published by Communications, HSBC Holdings plc, London

Designed and produced by Black Sun Plc, www.blacksunplc.com

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