

# Summary Directors' Report

## Results for 2009

HSBC reported pre-tax profit of US\$7,079 million. Profit attributable to shareholders of HSBC Holdings transferred to retained earnings was US\$5,834 million, a 5.1 per cent return on average total shareholders' equity.

## Principal activities and business review

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 8,000 properties in 88 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. Previously the Middle East was reported as part of Rest of Asia-Pacific. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients.

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 4 to 27 and form part of this Summary Financial Statement.

## Corporate governance report

The information set out on pages 28 to 41 and information incorporated by reference, is a summary of the Corporate Governance Report of HSBC Holdings contained on pages 294 to 349 of the *Annual Report and Accounts 2009*.

## Board of Directors

The objective of the management structures within HSBC, headed by the Board of Directors of HSBC Holdings and led by the Group Chairman, is to deliver sustainable value to shareholders. Implementation of the strategy set by the Board is delegated to the Group Management Board under the leadership of the Group Chief Executive.

The developing framework for corporate governance best practice and regulation in the financial services industry is actively considered by the Board. The draft recommendations and HSBC's response to the consultation on a *Review of Corporate Governance in UK Banks and other Financial Industry Entities* led by Sir David Walker ('the Walker Review') were discussed by the Board in September 2009. Following publication of the final recommendations in November 2009, the Board agreed actions to bring HSBC's practices into line with the review's recommendations. The principal changes were the establishment of a separate Board Risk Committee with effect from 26 February 2010 and broadening of the terms of reference of the Remuneration Committee.

The Board sets the strategy for the Group and approves the risk appetite, capital and operating plans presented by management for the achievement of the strategic objectives it has set. The risk appetite, capital and operating plans ensure the efficient disposition of HSBC's resources for the achievement of these objectives. Following consideration of all relevant factors, the Board determined on 2 March 2009 that a 5 for 12 rights issue to raise approximately £12.5 billion (US\$17.8 billion) was in the best interests of HSBC Holdings and its shareholders. Shareholders approved the rights issue at a General Meeting held on 19 March 2009. The 5,060,239,065 new ordinary shares were issued in April 2009.

The Directors who served during the year were, S A Catz, V H C Cheng, M K T Cheung (appointed 1 February 2009), J D Coombe, J L Durán, R A Fairhead, D J Flint, A A Flockhart, W K L Fung, M F Geoghegan, S K Green, ST Gulliver, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, S M Robertson, J L Thornton and Sir Brian Williamson.

Eight Board meetings were held during 2009. The table that follows gives details of each Director's attendance at meetings of the Board, Group Audit Committee, Nomination Committee, Remuneration Committee and Corporate Sustainability Committee held whilst he or she was a Director or member during 2009.

## Attendance record

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

## Notes

<sup>1</sup> Appointed 1 February 2009 – eligible to attend 7 Board Meetings.

<sup>2</sup> Appointed as a member on 1 March 2009 – eligible to attend 6 Committee Meetings. Attended a further 2 meetings by invitation.

<sup>3</sup> Appointed as a member on 24 April 2009 – eligible to attend 3 Committee Meetings.

### Group Chairman and Group Chief Executive

The roles of Group Chairman and Group Chief Executive are separated 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 Group Chairman's responsibilities include, in addition to the leadership of the Board, the development of relationships with governments and other significant external parties, corporate reputation and culture and performance management of the Group Chief Executive. Subject to the Group Chief Executive's recommendation, the Group Chairman approves risk, capital allocation and capital investment decisions within authorities delegated by the Board. The Group Chief Executive has responsibility for developing business plans and delivering performance against these.

In September 2009, the Board announced changes to the respective roles of the Group Chairman and Group Chief Executive, the relocation of the principal office of the Group Chief Executive to Hong Kong and other senior executive management changes. Under these arrangements M F Geoghegan is located in the Group's strategically most important region, with a focus on ensuring its growth potential is fully realised. M F Geoghegan has assumed responsibility for developing Group strategy in agreement with the Group Chairman and for recommendation to the Board. As chairman of the Group Management Board, M F Geoghegan continues to drive performance within strategic goals and commercial objectives agreed by the Board. M F Geoghegan has also become chairman of The Hongkong and Shanghai Banking Corporation Limited.

### Board balance and independence of Directors

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

The Board appointed S M Robertson as the senior independent non-executive Director in 2007. The principal role of the senior independent non-executive Director is to support the Group Chairman in his role, to lead the non-executive Directors in the oversight of the Group Chairman and to ensure there is a clear division of responsibility between the Group Chairman and Group Chief Executive.

The Board considers all of the non-executive Directors to be independent in character and judgement. W K L Fung has served on the Board for more than nine years, however, and in that respect only, does not meet the usual criteria for independence set out in the UK Combined Code on corporate governance. The Board has therefore determined S A Catz, M K T Cheung, J D Coombe, J L Durán, R A Fairhead, J W J Hughes-Hallett, W S H Laidlaw, J R Lomax, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, S M Robertson, J L Thornton and Sir Brian Williamson to be independent. When determining independence the Board considers that calculation of the length of service of a non-executive Director begins on the date of his or her first election by shareholders as a Director of HSBC Holdings. Given the complexity and geographical spread of HSBC's business, the experience of previous service on a subsidiary company Board can be a considerable benefit to HSBC 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

During 2009, the Board reviewed and approved changes to the arrangements for Director induction and development. Full, formal and tailored induction programmes, with particular emphasis on internal controls, are arranged for newly appointed Directors by the Group Company Secretary. The programmes consist of a series of meetings with other Directors and senior executives to enable new Directors to receive information and familiarise themselves with HSBC's strategy, operations and internal controls. As part of the induction process the Group Company Secretary will coordinate the production of a development programme based on the individual Director's needs. Prior to their appointment, each Director receives comprehensive

guidance on the duties and liabilities of a Director of HSBC Holdings. Opportunities to update and develop skills and knowledge, through externally run seminars and through briefings by senior executives, are provided to all Directors.

A personalised approach to training and development is applied for Directors. Records of development activities and plans are maintained by the Group Company Secretary for annual review with the Director concerned by the Group Chairman. The Group Company Secretary coordinates the delivery of any training required. Focused in-house development programmes to enhance business awareness, such as on the management of risk, are arranged in conjunction with scheduled Board Meetings. Since December 2009, Directors have online access to HSBC's internal training and development resources.

### Appointment, retirement and re-election of Directors

M K T Cheung was appointed a non-executive Director on 1 February 2009.

J L Durán, R A Fairhead, W K L Fung, M F Geoghegan, S K Green, Sir Mark Moody-Stuart, G Morgan, N R N Murthy, S M Robertson, J L Thornton and Sir Brian Williamson will retire at the forthcoming Annual General Meeting. With the exception of J L Durán, W K L Fung and Sir Mark Moody-Stuart, who are to retire, they offer themselves for re-election. At the conclusion of the 2010 Annual General Meeting, the Board will then comprise 18 Directors, 12 of whom are independent non-executive Directors. None of the non-executive Directors has a service contract. M F Geoghegan and S K Green, who are seeking re-election at the Annual General Meeting, are employed on rolling contracts which require 12 months' notice to be given by either party.

The Group Chairman has confirmed that all of the non-executive Directors continue to perform effectively and to demonstrate commitment to their roles.

Brief biographical particulars of all Directors are given on pages 28 to 30.

### Corporate governance codes

HSBC is committed to high standards of corporate governance. HSBC Holdings has complied throughout the year with the applicable code provisions of the Combined Code on Corporate Governance 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. The Combined Code on Corporate Governance is available at [www.frc.org.uk](http://www.frc.org.uk) and the Code on Corporate Governance Practices is available at [www.hkex.com.hk](http://www.hkex.com.hk).

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

### Board committees

The Board has appointed a number of committees.

The **Group Management Board** meets frequently and operates as a general management committee under the direct authority of the Board. The objective of the Group Management Board is to maintain a reporting and control structure whereby all of the line operations of HSBC are accountable to individual members of the Group Management Board who report to the Group Chief Executive who in turn reports to the Group Chairman. The Board has set objectives and measures for the Group Management Board. These align senior executives' objectives and measures with the strategy and operating plans throughout HSBC. The members of the Group Management Board are M F Geoghegan (Chairman), D J Flint, A A Flockhart and S T Gulliver, who are executive Directors, and A Almeida, E Alonso, K M Harvey, A C Hungate, B P McDonagh, B Robertson, P A Thurston and P T S Wong, all of whom are Group Managing Directors.

The Group Management Board 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 in accordance with such policies and directions as the Board may from time to time determine.

The **Group Audit Committee** meets regularly with HSBC's senior financial, credit and risk, internal audit, legal and compliance management and the external auditor to consider HSBC Holdings' financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control, compliance and risk management. The members of the Group Audit Committee throughout 2009 were R A Fairhead (Chairman), J D Coombe and J W J Hughes-Hallett. J R Lomax was appointed a member of the Committee on 1 March 2009. On 1 March 2010, M KT Cheung was appointed a member of the Committee in succession to J W J Hughes-Hallett. All members of the Committee are independent non-executive Directors.

The Committee has discussed the risk management recommendations of the Walker Review. Following the Committee's recommendation of appropriate terms of reference, a separate **Group Risk Committee** was established by the Board on 26 February 2010. The terms of reference of the Group Risk Committee are available at [www.hsbc.com/boardcommittees](http://www.hsbc.com/boardcommittees). The members of the Group Risk Committee are R A Fairhead (Chairman), J D Coombe, J W J Hughes-Hallett and J R Lomax, all of whom are independent non-executive Directors. Going forward the Group Audit Committee will focus primarily on financial reporting matters and the Group Risk Committee on internal control and risk management matters.

The Board has determined that M KT Cheung, J D Coombe, R A Fairhead, J W J Hughes-Hallett and J R Lomax are independent according to SEC criteria. In addition, M KT Cheung, J D Coombe, R A Fairhead and J W J Hughes-Hallett 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.

An analysis of the remuneration paid in respect of audit and non-audit services provided by KPMG for each of the last three years is disclosed in Note 9 on page 400 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts 2009*.

Further information about the Group Audit Committee is given on pages 310 to 312 of the *Annual Report and Accounts 2009*.

The role of the **Remuneration Committee** and its membership are set out in the 'Summary Directors' Remuneration Report' on page 34.

The **Nomination Committee** is responsible for leading the process for Board appointments and for identifying and nominating, for approval by the Board, candidates for appointment to the Board. Before recommending an appointment to the Board, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this, 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 HSBC. Prospective Directors are asked to identify any significant other commitments and confirm they have sufficient time to discharge what is expected of them. In accordance with the Articles of Association all Directors are subject to election by shareholders at the Annual General Meeting following their appointment by the Board and to re-election at least every three years. The members of the Nomination Committee throughout 2009 were Sir Brian Williamson (Chairman), R A Fairhead, S M Robertson and J W J Hughes-Hallett, all independent non-executive Directors. The Board appointed S K Green, Group Chairman to succeed Sir Brian Williamson as chairman of the Nomination Committee on 26 February 2010. Sir Brian remains a member of the Committee.

The appointment of M KT Cheung as a non-executive Director was made on the advice and recommendation of the Nomination Committee. An external consultancy was used in connection with the appointment.

Further information about the Nomination Committee is given on pages 312 to 313 of the *Annual Report and Accounts 2009*.

The **Corporate Sustainability Committee** is responsible for advising the Board, committees of the Board and executive management on corporate sustainability policies, including environmental, social and ethical issues. At an operational level, implementation of these policies is managed primarily by Group Human Resources, Group Risk, Group Compliance and Group Corporate Sustainability.

The members of the Committee throughout 2009 were W K L Fung (Chairman), Sir Mark Moody-Stuart and N R N Murthy, each of whom is a non-executive Director, G V I Davis, Lord May and Dame Mary Marsh (appointed a member on 31 July 2009), who are non-director members of the Committee.

Further information about Corporate Sustainability is given on pages 326 to 328 of the *Annual Report and Accounts 2009*.

### Community investment

HSBC has a long-standing commitment to the communities in which it operates. Many of the Group's key markets are emerging economies. HSBC's operations bring benefits to its host countries through tax contributions, and to local people and businesses through employment, training, purchasing and investment. Beyond the impact of its core business, the Group aims to encourage social and economic opportunity through its community investment activity.

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

In 2009, HSBC donated a total of US\$100 million to community investment projects (2008: US\$102 million, or US\$99 million at constant exchange rates).

### Dividends

First, second and third interim dividends for 2009, each of US\$0.08 per ordinary share, were paid on 8 July 2009, 7 October 2009 and 13 January 2010 respectively. On 1 March 2010, the Directors declared a fourth interim dividend for 2009 of US\$0.10 per ordinary share in lieu of a final dividend, which will be payable on 5 May 2010 in cash in US dollars, or in sterling or in Hong Kong dollars at exchange rates to be determined on 26 April 2010, with a scrip dividend alternative. As the fourth interim dividend for 2009 was declared after the balance sheet date it has not been included as a creditor at 31 December 2009. The reserves available for distribution at 31 December 2009 were US\$34,460 million.

A quarterly dividend of US\$15.50 per 6.20 per cent 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 16 March, 15 June, 15 September and 15 December 2009.

### Dealings in HSBC Holdings shares

Except for dealings as intermediaries by HSBC Bank, HSBC Financial Products (France) and The Hongkong and Shanghai Banking Corporation, which are members of a European Economic Area exchange, neither HSBC Holdings nor any subsidiary has bought, sold or redeemed any securities of HSBC Holdings during the year ended 31 December 2009.

### Auditor's report

The auditor's report on the full accounts for the year ended 31 December 2009 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 498 (3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The statement under section 496 (whether directors' report is consistent with the accounts) was unqualified.