

# Summary Directors' Remuneration Report

## Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. Within the authority delegated by the Board, the Committee is responsible for approving the remuneration policy of HSBC and in doing so takes into account the pay and conditions across the Group. This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on HSBC's risk profile. No Directors are involved in deciding their own remuneration.

The members of the Remuneration Committee throughout 2009 were Sir Mark Moody-Stuart (Chairman), J D Coombe, W S H Laidlaw and G Morgan. J L Thornton became a member of the Committee on 24 April 2009.

There were seven meetings of the Remuneration Committee during 2009.

The Committee has appointed Deloitte LLP to provide independent advice on executive remuneration issues and Towers Watson (formerly Towers Perrin) to provide remuneration data. As global firms, each of these firms also provided other consulting services to various parts of HSBC. Other consultants are used from time to time to advise on specific issues. During the year the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Human Resources, A Almeida, the Head of Group Performance and Reward, S J Walker and subsequently T Roberts, and the Group Chief Risk Officer, B Robertson.

## Overall principles

A global reward strategy for the Group was approved by the Remuneration Committee in 2007. This strategy provided a framework for the Remuneration Committee in carrying out its responsibilities during the year and includes the following key elements:

- an assessment of reward with reference to clear and relevant objectives set within a balanced scorecard framework. This framework facilitates a rounded approach to objective setting. Under this framework, objectives are set under four categories – financial, process (including risk mitigation), customer and people. Significant importance is given to the achievement of efficiency and risk objectives as well as financial objectives. Objectives relating to customer development and the productivity of the Group's human capital are also key to financial performance and the development and sustainability of the Group over the short and medium term;
- a focus on total compensation (salary, bonus and the value of long-term incentives) with variable pay (namely bonus and the value of long-term incentives) differentiated by performance;
- the use of considered discretion to assess the extent to which performance has been achieved rather than applying a formulaic approach which, by its nature, may encourage inappropriate risk taking and cannot cover all scenarios;
- a significant proportion of variable pay being deferred into, predominantly, awards of HSBC Holdings Restricted Shares to tie recipients to the future performance of the Group and to retain key talent. All Restricted Share awards made from 2010 are subject to claw back; and
- a total remuneration package (salary, bonus, long-term incentive awards and other benefits) which is competitive in relation to comparable organisations in each of the markets in which HSBC operates.

The Committee also takes into account environmental, social and governance aspects when determining executive Directors' remuneration and oversees senior management incentive structures to ensure that such structures take account of possible inadvertent consequences from these aspects.

## Application to executive Directors

In order to ensure that executive Directors' compensation packages are competitive, having regard to the market in which HSBC competes for executive talent, the Remuneration Committee considers market data from a defined remuneration comparator group. This group initially comprised nine global financial services companies, namely Banco Santander, Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, Royal Bank of Scotland, Standard Chartered and UBS. These companies were selected on the basis of their broadly similar business coverage, size and international scope, and are subject to annual review for continuing relevance. During 2009, the Remuneration Committee determined that the Royal Bank of Scotland should be replaced by JPMorgan Chase & Co. in the remuneration comparator group.

The positioning of total compensation (salary, bonus and the expected value of long term incentives) for the executive Directors depends on the performance of the Group and individual performance assessed against a combination of financial and non-financial objectives within an annual balanced scorecard. Remuneration is structured to provide an opportunity for top quartile total compensation for higher levels of performance.

The performance-related aspects of the remuneration package consist of an annual bonus of up to four times salary and Performance Share awards with a face value of up to seven times salary. Taking into account the expected value of awards, the performance-related elements of pay make up a considerable proportion of the total remuneration package whilst maintaining an appropriate balance between fixed and variable elements. Annual bonus payments and Performance Share awards are not pensionable.

A significant proportion of total compensation will be delivered in HSBC Holdings shares. Executive Directors and other senior executives are subject to share ownership guidelines.

The above approach applies to all executive Directors with the exception of the Group Chairman, S K Green who, at his request, is remunerated through salary only, i.e. he no longer receives annual bonus payments or awards of Performance Shares; and S T Gulliver, whose variable compensation arrangements take into account wholesale banking market practice.

The approach will continue to be carefully and regularly reviewed during 2010 to take account of current market conditions and emerging regulatory guidelines (see 'HSBC performance and market context below) and, where appropriate, shareholders will be consulted on any proposed changes in policy. Any changes will also be described in future Directors' Remuneration Reports.

The application of this policy to each component of executive Directors' remuneration for 2009 is outlined in more detail within 'Executive Director remuneration'.

## HSBC performance and market context

2009 was a year of unprecedented initiatives by governments and central banks designed to provide timely support for global financial markets and reduce the volatility and turbulence that had characterised 2008. These actions were largely successful and contributed to improved market liquidity, a recovery in market confidence which was reflected in a broad reduction in credit spreads, and a re-opening of global capital markets which allowed banks and corporates alike to raise the equity and debt capital essential to their future. In determining remuneration levels for 2009, the Committee took these events and their context into account. The Committee also recognised that the actions taken by governments and central banks were primarily designed to assist overlevered banks in developed markets and that many of the measures applied were not only of no assistance but were detrimental to banks such as HSBC with highly liquid, emerging market-facing banking operations. In particular HSBC's retail businesses earned less interest income on the excess of deposits over lending because of low interest rates and this reduced profitability when set against the largely fixed cost base of the retail infrastructure.

Within this market context, HSBC did not need taxpayers' money and its overall financial and non-financial performance was strong relative to its peers. This was evident in consistently favourable assessments of HSBC's corporate and management structure and its liquidity framework in regulatory policy initiatives which explored why some banks fared better than others during the crisis. HSBC's share price since the announcement of its 2008 results has more than doubled and HSBC has returned to being the most valuable bank, in terms of market capitalisation, outside mainland China.

## Key achievements

The annual financial objectives the Group set itself for 2009 were achieved, although in some areas they were below the longer-term targets established. In the Group's 2009 performance, particular note was made of the following:

- the strengthening of the Group's tier 1 ratio by 250 basis points to 10.8 per cent, exceeding the target range;
- the maintenance of a highly liquid balance sheet with the ratio of advances to deposits ending below 80 per cent, notwithstanding the impact on profit of the low interest rate environment;
- the reduction in loan impairment charges in the US consumer finance business and the contribution to that reduction made by management's decisions to curtail origination activity progressively from 2007 then finally close the Consumer Lending branch network in 2009;
- the broad base of strong performances within the Global Banking and Markets business, consistent with its continuing strategy;

- the successful and accelerated wind-down of the legacy exit portfolios of asset-backed and structured credit exposures in the Global Banking and Markets business;
- recovery in shareholders' equity in line with expectations, as the available-for-sale portfolio in the Global Banking and Markets business recovered value;
- the resilient performance of HSBC in Hong Kong, notwithstanding it is a market significantly affected by the low interest rate environment;
- effective cost control reflected in the underlying cost reduction of 4 per cent excluding the goodwill impairment charge in 2008;
- the significant reduction in the Group's own credit spread; and
- decisive management initiatives taken to address the causes of the disappointing performances in certain personal and commercial portfolios in Latin America and the Middle East.

Key non-financial achievements of the Group in 2009, which reference the objectives set for senior management in their relevant balanced scorecard categories, are summarised below:

- process objectives focused on efficiency and qualitative measures which, in turn, affect financial performance and mitigate risk. The Group met the target it set for operational losses as a percentage of revenue and embedded the HSBC Risk Appetite Framework, establishing the nature and quantum of risks which the Group is prepared to accept in undertaking its activities. The overall management of risk mitigation was judged to be strong;
- progress in meeting customer recommendation and brand health targets was mixed in a challenging environment for retail and commercial banking. The Group met its brand health target for Personal Financial Services and customer penetration targets for wealth insurance, but narrowly missed the brand health target for Commercial Banking. Customer recommendation targets were not met; and
- regarding the Group's human capital, HSBC exceeded its 2009 employee engagement target as measured in its Global People Survey, improved on the 2008 score, and exceeded the global financial sector and global norms scores for employee engagement in 2009. The target for the ratio of revenue to staff costs was also met.

### Management of risk

Since 2008, the Group's Risk function has been involved in the approval of relevant incentive plans. Within the Group's wholesale businesses, where appropriate, specific conditionality has been applied to the release of Restricted Shares awarded by way of deferred bonuses. From 2009, the concept of imputing the cost of capital in the determination of bonus funding was being expanded progressively across HSBC, starting with the Group's Global Banking and Markets business.

The Group's deferral policy for 2009 is compliant with the Financial Services Authority and the Financial Stability Board guidelines. Vesting of Restricted Shares may be subject to forfeiture (claw back) at the sole discretion of the Remuneration Committee after review by the Committee of all relevant circumstances.

From 2009, the Group Chief Risk Officer has provided advice to the Committee on the implications of the remuneration policy on risk and risk management. As discussed in 'Overall principles' above, risk mitigation objectives are included in the balanced scorecard framework. Economic Profit is also included as a performance measure for the long-term incentive Performance Share awards described below.

Further information relating to the Group's approach to risk management is set out on page 199 of the *Annual Report and Accounts 2009*.

### Executive Director remuneration

#### Salary

The Committee reviews salary levels for executive Directors each year.

No increases in salaries were made in 2008 or 2009 other than to reflect promotions to the Board.

In September 2009, HSBC announced that the Group Chief Executive, M F Geoghegan, would assume responsibility for the Group's strategy. In addition, to underscore that the Group's strategy of focusing on emerging markets was most effectively achieved in Asia, HSBC's largest emerging market, it was announced that the principal office of the Group Chief Executive would be moved to Hong Kong and, on 1 February 2010, M F Geoghegan would also succeed V H C Cheng as Chairman of The

Hongkong and Shanghai Banking Corporation Limited. These changes have now taken place and M F Geoghegan is now based in Hong Kong.

In support of these changes and the relocation of the principal office of the Group Chief Executive, the Group also made complementary executive management appointments which reflect widened responsibilities with effect from 1 February 2010. The changes affecting the executive Directors are set out below.

V H C Cheng's focus is on developing HSBC's business in China, and he continues to oversee key mainland China initiatives. He remains an executive Director of the Board of HSBC Holdings, continues as Chairman of HSBC Bank (China) Company Limited and was appointed Chairman of HSBC Bank (Taiwan) Limited on 21 January 2010. To complement his new remit, his principal base will move to mainland China from Hong Kong.

A A Flockhart was appointed Chairman Personal and Commercial Banking and Insurance. His remit includes overseeing HSBC's Global Personal Financial Services, Commercial Banking and Insurance businesses, HSBC's Latin American and African businesses, and most Group functions including Corporate Sustainability. He continues to be based in Hong Kong.

ST Gulliver was appointed Chairman, Europe, Middle East and Global Businesses. In this capacity, he has assumed overall responsibility for all HSBC's businesses across Europe, the Middle East and Global Private Banking and continues to oversee the Global Banking and Markets business. ST Gulliver has become Chairman of HSBC Bank Middle East Limited. He continues to be based in London.

D J Flint has assumed responsibility for Compliance in addition to his existing remit for Finance and Risk. His title has changed to Chief Financial Officer, Executive Director Risk and Regulation, and his role continues to be based in London.

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

The Committee also approved an increase to the salary of the Group Chief Executive, M F Geoghegan, in light of the international competitive position and the increased responsibilities listed above. However, M F Geoghegan subsequently did not consider it appropriate to accept such an increase at present. The non-executive Directors have unanimously agreed that his remuneration, including salary, will be brought up to internationally competitive levels within the next twelve months.

No other salary increases are proposed for executive Directors.

The table below shows salaries for 2008, 2009 and for 2010. Changes in salaries are applicable from 1 February 2010.

	Salary		
	2010 £000	2009 £000	2008 £000
D J Flint	800	700	700
M F Geoghegan	–	1,070	1,070
S K Green	1,250	1,250	1,250
ST Gulliver <sup>1</sup>	800	800	800
	HK\$000	HK\$000	HK\$000
V H C Cheng <sup>1</sup>	9,300	9,300	9,300
A A Flockhart <sup>1</sup>	10,000	8,000	8,000
M F Geoghegan <sup>2</sup>	13,495	–	–

1 V H C Cheng joined the Board on 1 February 2008 and A A Flockhart and ST Gulliver on 1 May 2008. The salaries shown above for 2008 represent the full year equivalent salary for these individuals.

2 Currency change reflects the change in location of the principal office of the Group Chief Executive. 2010 salary is equivalent to 2009 salary. With effect from 26 January 2010, in recognition of the relocation to Hong Kong and the associated additional costs of living that will be incurred, a fixed allowance of HK\$3,767,256 (equivalent to £300,000) per annum, is payable together with housing and other benefits in kind that are normal within this location. The fixed allowance is not pensionable and is not considered as part of salary in determining the maximum annual bonus and Performance Share awards.

### Annual bonus

In determining annual bonus awards, the Committee took into account the extent to which the Group's annual objectives had been met under the balanced scorecard approach, the Group's absolute and relative performance compared to its peers and competitive market practice. The individual awards are fully discretionary rather than formulaic, enabling a rounded and balanced view of performance.

In 2009, the Group Chief Executive, M F Geoghegan, the then Group Finance Director, D J Flint and the then Chief Executive of Global Banking and Markets and HSBC Global Asset Management, ST Gulliver, requested that they not be considered for a bonus in respect of 2008 in view of the general financial market conditions. The Committee decided not to award these individuals a bonus in respect of 2008 notwithstanding the performance of HSBC and the wholesale businesses in relation to their comparators.

As noted above the Group Chairman, S K Green, at his request, no longer receives an annual bonus payment. In line with this, no bonus award is being made to him in respect of 2009.

The awards made in 2010 to the Group Chief Executive, M F Geoghegan, and the Chief Financial Officer, Executive Director Risk and Regulation, D J Flint, reflect the overall achievements and performance of the Group under the balanced scorecard framework as described in 'HSBC performance and market context', set within the context of each role.

The award made to the Chairman, Europe, Middle East and Global Businesses, ST Gulliver, reflects the delivery of exceptional performance within Global Banking and Markets which contributed pre-tax profits of US\$10.5 billion, an increase of 201 per cent. Robust revenues were reported in core constituent businesses such as Rates and Balance Sheet Management which delivered strong growth. A significant reduction in write-downs on legacy positions in credit trading, leveraged and acquisition finance and monoline exposures also contributed to the strong revenue performance. Revenues grew faster than costs and consequently the cost efficiency ratio improved by 29.1 percentage points to 39.1 per cent on an underlying basis. Global Banking and Markets was recognised for the continuing success of its emerging markets-led and financing focused strategy, with numerous industry awards.

Awards for executive Directors with responsibilities for Asia reflect robust performance underpinned by a market-leading share in deposits, residential mortgages, cards and insurance, within a challenging environment. In Hong Kong, HSBC reported a decline in pre-tax profit of 8 per cent on an underlying basis due to lower revenue from compressed deposit spreads, partly offset by a reduced level of loan impairment charges and credit risk provisions. Overall, customer lending balances were flat, as higher lending in Personal Financial Services and Global Banking and Markets was broadly offset by a decline in

Commercial Banking, reflecting weakened demand for exports. In the Rest of Asia-Pacific region, HSBC reported an 8 per cent decline in pre-tax profit on an underlying basis, reflecting the difficult economic conditions; this masked, however, a strong contribution from HSBC's associates in the region, notably in mainland China.

Bonus awards to be made in 2010 in respect of 2009 performance, and bonus awards made in respect of 2008 and 2007, are shown in the table below. The awards made to executive Directors and seven Group Managing Directors in respect of 2009 performance will be fully deferred. All executive Directors' awards will be fully deferred into awards of Restricted Shares issued under the HSBC Share Plan. With the exception of the award for V H C Cheng, 33 per cent of the executive Directors' awards will vest 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. The award for V H C Cheng has a vesting date three years from the date of the award.

### Performance Shares

Under the HSBC Share Plan, executive Directors, as with other participants in the Plan, are eligible to receive awards of Performance Shares with a face value at grant of up to a maximum of seven times salary. The Group Chairman, S K Green, at his request is no longer considered for awards of Performance Shares. The performance conditions associated with these awards are detailed in 'Description of performance conditions' below.

No awards of Performance Shares were made in 2009, and no awards have been made to date in 2010. Awards may be considered later in 2010, taking into account performance and the market context at the time.

The average actual vesting of Performance Share awards made in 2004, 2005 and 2006 (which were tested in 2007, 2008 and 2009) has been 23 per cent of their face value. The awards made in 2006 did not satisfy the earnings per share ('EPS') condition but did satisfy the total shareholder return ('TSR') condition and accordingly, 39.5 per cent of the TSR element of the award (19.75 per cent of the overall award) vested. The awards made in 2007 have not satisfied the earnings per share measure. The extent to which the TSR part of the award will vest will be determined following the completion of the three year comparison period on 26 March 2010.

### Description of performance conditions

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

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

	2009 performance <sup>1</sup>		2008 performance		2007 performance	
	Cash £000	Restricted Shares £000	Cash £000	Restricted Shares £000	Cash £000	Restricted Shares £000
D J Flint <sup>2</sup>	–	2,100	–	–	800	–
M F Geoghegan <sup>2</sup>	–	4,000	–	–	2,140	–
S K Green <sup>3</sup>	–	–	–	–	1,750	–
ST Gulliver <sup>2</sup>	–	9,000	–	–	5,592	3,600
	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000
V H C Cheng	–	15,600	–	18,533	23,864	9,832
A A Flockhart <sup>4</sup>	–	24,000	–	18,705	–	–
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
A A Flockhart <sup>4</sup>	–	–	–	–	2,598	1,184

### Notes

- The awards made in respect of 2009 performance will be fully deferred into awards of Restricted Shares, issued under the HSBC Share Plan. With the exception of the award for V H C Cheng, 33 per cent of the executive Directors' awards will vest 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. The award for V H C Cheng has a vesting date three years from the date of the award.
- M F Geoghegan, D J Flint and ST Gulliver requested that they not be considered for a bonus in respect of 2008.
- At the Chairman's request, he is not considered for an annual bonus award.
- The change in currency for A A Flockhart reflects a change of expatriate terms. The 2008 figure is on a gross equivalent basis.

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

Awards will not vest unless the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the award date. In determining whether HSBC Holdings has achieved such sustained improvement the Remuneration Committee will take account of all relevant factors, in particular, comparisons against the TSR comparator group in areas such as revenue growth and mix, cost efficiency, credit performance, cash return on cash invested, dividends and TSR.

The performance conditions are measured over a three year performance period and awards forfeited to the extent that they have not been met.

The performance measures and the targets described below apply to awards made in 2008 and any awards to be made in the future. The Remuneration Committee will review annually whether the performance targets remain appropriate and challenging, or whether they should be recalibrated for any future awards, taking into account factors such as economic expectations, the industry's outlook and shareholders' interests. The Committee will consult in accordance with institutional shareholder guidelines on any further changes proposed to the nature of the performance measures and their percentage weighting referred to above.

#### Total shareholder return award

Total shareholder return ('TSR') is measured against a comparator group comprising the largest global banks in the world as well as other banks against which HSBC competes for business at a regional and/or local level. These companies are:

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

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

To reflect the fact that the range of market capitalisations within the comparator group is very wide, a FFMC weighted method is used to calculate TSR performance. Under this approach, HSBC's out-performance of the comparator group will be calculated by dividing the total FFMC of all of the companies that HSBC has outperformed in terms of TSR by the total FFMC of all of the companies in the comparator group.

The extent to which the TSR award will vest will be determined as follows:

If HSBC's TSR outperforms companies comprising	Proportion of TSR award vesting <sup>1</sup>
75 per cent of the total FFMC	100%
50 per cent of the total FFMC	20%
< 50 per cent of the total FFMC	nil

<sup>1</sup> Vesting will occur in a straight line between 20 per cent and 100 per cent where HSBC's performance falls between these incremental steps.

#### Economic profit award

Economic profit ('EP') is calculated as the average annual difference between return on invested capital and the Group's benchmark cost of capital and is expressed as a percentage. EP is a key measure of shareholder value creation as it rewards management progressively to the extent that the return on the capital invested in HSBC by its shareholders is in excess of a threshold return, which itself exceeds the Group's benchmark cost of capital.

For the awards made in 2008 the benchmark cost of capital was 10 per cent. Return on invested capital is based on the profit attributable to shareholders as defined on page 19 of the *Annual Report and Accounts 2009*. The extent to which the EP award will vest will be determined as follows:

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

<sup>1</sup> Vesting will occur in a straight line between 0 per cent and 100 per cent where HSBC's performance falls between these incremental steps.

#### Earnings per share award

Growth in earnings per share ('EPS') is measured on a point to point basis, by comparing EPS in the third financial year of the performance period with EPS in the financial year preceding that in which the award is made. This approach is aimed at simplifying the use of EPS as a performance measure and takes into account feedback received during consultation with institutional shareholders in 2007/2008.

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

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

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

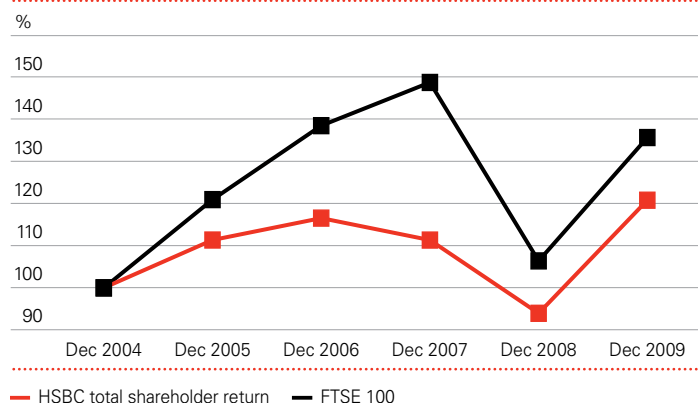
Awards will vest in full and immediately in cases of death. In the event of redundancy, retirement on grounds of injury or ill health and where a participant ceases to be employed by HSBC due to a company ceasing to be part of HSBC, awards will normally vest at the end of the vesting period on a time-apportioned basis to the extent that the performance conditions have been satisfied. In the event of a change of control, awards will normally vest immediately and on a time-apportioned basis to the extent that the performance conditions have been satisfied. Awards will normally be forfeited if the participant is dismissed for cause or resigns from HSBC. In all circumstances the Committee retains discretion to ensure fair and reasonable treatment.

#### Funding

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

**Total shareholder return**

Pursuant to the Directors' Remuneration Report Regulations 2002, the graph below shows HSBC's TSR performance against the FTSE 100 Index, for the five-year period ended 31 December 2009. The FTSE 100 Index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.

**HSBC TSR and FTSE 100 Index**

Source: International Data Corporation

**Pensions**

The normal retirement age for executive Directors is 65 with the exception of V H C Cheng, for whom no retirement age is specified in keeping with local legislation. The pension entitlements of the executive Directors for 2009 are set out on pages 39 to 40.

**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 HSBC's share plans.

**Directors' 2009 remuneration**

The remuneration of the Group Chairman and executive Directors of HSBC Holdings for 2009 was as follows:

	V H C Cheng		D J Flint		A A Flockhart		M F Geoghegan		S K Green		ST Gulliver	
	2009	2008 <sup>1</sup>	2009	2008	2009	2008 <sup>1</sup>	2009	2008	2009	2008	2009	2008 <sup>1</sup>
£000												
Salary	769	534	700	700	662	229	1,070	1,070	1,250	1,250	800	533
Allowances <sup>2</sup>	191	67	394	394	–	–	548	544	8	8	8	5
Benefits in kind <sup>2,3</sup>	663	545	8	13	437	355	57	53	4	7	18	9
Bonus (deferred) <sup>4</sup>	1,240	1,639	2,100	–	1,908	1,655	4,000	–	–	–	9,000	–
Total remuneration <sup>5</sup>	2,863	2,785	3,202	1,107	3,007	2,239	5,675	1,667	1,262	1,265	9,826	547
Total emoluments <sup>6</sup>	1,623	1,146	1,102	1,107	1,099	584	1,675	1,667	1,262	1,265	826	547
US\$000												
Total remuneration <sup>5</sup>	4,466	5,108	4,995	2,030	4,691	4,106	8,852	3,057	1,969	2,320	15,327	1,003
Total emoluments <sup>6</sup>	2,532	2,102	1,719	2,030	1,714	1,071	2,613	3,057	1,969	2,320	1,288	1,003

**Notes**

- The comparative emoluments figures in respect of 2008 are for the period from the date of appointment of the Director (V H C Cheng, 1 February 2008; and A A Flockhart and ST Gulliver, 1 May 2008).
- Allowances include an executive allowance paid to fund personal pension arrangements and a company car allowance. Following the categorisation of the company car benefit in 2009 as an allowance and not a benefit in kind, the comparative figures for 2008 for D J Flint, M F Geoghegan, S K Green and ST Gulliver have been adjusted accordingly.
- Benefits in kind include provision of medical insurance, other insurance cover, accountancy advice and travel assistance. V H C Cheng and A A Flockhart receive housing and other benefits in kind that are normal within the location in which they are employed.
- These deferred bonuses represent 100 per cent of the annual bonus in respect of 2009, all of which will be deferred into awards of HSBC Holdings Restricted Shares. See page 36 for further details of the deferral and vesting arrangements.
- Total remuneration, pursuant to the UK Listing Rules, includes deferred bonuses.
- Total emoluments, pursuant to the UK Companies Act 2006, exclude the annual bonus that has been deferred and is not receivable for at least a further 12 months.

**Fees**

Non-executive Directors' fees are regularly reviewed and compared with other large international companies. The current fee, which was approved by shareholders in 2006, is £65,000 per annum.

A fee of £30,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees:

**Fees – non-executive Directors**

Chairman, Group Audit Committee	£50,000 p.a.
Member, Group Audit Committee	£20,000 p.a.

During 2009, 8 meetings of the Group Audit Committee were held.

Chairman, Remuneration Committee	£40,000 p.a.
Member, Remuneration Committee	£20,000 p.a.

During 2009, 7 meetings of the Remuneration Committee were held.

Chairman, Nomination Committee	£30,000 p.a.
Member, Nomination Committee	£20,000 p.a.

During 2009, 3 meetings of the Nomination Committee were held.

Chairman, Corporate Sustainability Committee	£30,000 p.a.
Member, Corporate Sustainability Committee	£20,000 p.a.

During 2009, 5 meetings of the Corporate Sustainability Committee were held.

In line with the recommendations of the Walker Review, the Board approved the formation of a separate Group Risk Committee with effect from 26 February 2010. A fee of £40,000 per annum will be payable to the Chairman of the Group Risk Committee and a fee of £20,000 per annum will be payable to the Members of the Committee. As a consequence, the fee for the Chairman of the Group Audit Committee will reduce to £40,000 per annum.

The total of fees paid to each of the non-executive Directors of HSBC Holdings for 2009, being emoluments for the purposes of the Companies Act 2006, is as follows:

	2009 £000	2008 £000
S A Catz	65	43
M K T Cheung <sup>1</sup>	89	–
J D Coombe	105	105
J L Durán	65	65
R A Fairhead	135	127
W K L Fung <sup>2</sup>	132	122
J W J Hughes-Hallett	105	105
W S H Laidlaw	85	77
J R Lomax <sup>3</sup>	82	5
Sir Mark Moody-Stuart	125	125
G Morgan	85	85
N R N Murthy	85	45
S M Robertson	115	115
J L Thornton <sup>4</sup>	1,040	89
Sir Brian Williamson	95	95
Total	2,408	1,203
Total (US\$000)	3,756	2,206

1 Appointed a Director of HSBC Holdings on 1 February 2009. Includes fees as a non-executive Director and member of the Audit Committee of Hang Seng Bank Limited.

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

3 Appointed a Director of HSBC Holdings on 1 December 2008. The comparative figure in respect of 2008 is for the period from the date of appointment.

4 Appointed a Director of HSBC Holdings on 1 December 2008. The comparative figure in respect of 2008 is for the period from the date of appointment as a Director. Includes fees as non-executive Chairman of HSBC North America Holdings Inc.

### Pensions

V H C Cheng is a member of the Hong Kong Special Administrative Region Mandatory Provident Fund ('MPF') and received an executive allowance of 25 per cent of annual basic salary during 2009, less the mandatory contributions to the MPF by both the employer and employee, to fund personal pension arrangements (HK\$2,313,000). During 2009, the mandatory employer contribution to the MPF in respect of Mr Cheng was HK\$12,000.

D J Flint received an executive allowance during 2009 of 55 per cent of annual basic salary to fund personal pension arrangements (£385,000). From 1 February 2010 this executive allowance will be 50 per cent of annual basic salary.

A A Flockhart received employer contributions during 2009 of 40 per cent of annual basic salary into a personal pension plan (HK\$3,200,000). From 1 February 2010 employer contributions will be equivalent to 50 per cent of annual basic salary.

M F Geoghegan received an executive allowance during 2009 of 50 per cent of annual basic salary to fund personal pension arrangements (£535,000). No employer contribution was made to the HSBC Asia Holdings Pension Plan in 2009. (In 2008, an employer contribution of £225,000 was made arising entirely from a bonus sacrifice in respect of 2007).

S K Green ceased membership of the HSBC Bank (UK) Pension Scheme on 5 April 2006. Since 6 April 2006, Mr Green has been entitled to receive benefits from an Employer Funded Retirement Benefits Scheme which together with entitlements from the HSBC Bank (UK) Pension Scheme will provide benefits to Mr Green that will be broadly comparable to an accrual rate of one-thirtieth of pensionable salary for each year of pensionable service.

ST Gulliver received employer contributions during 2009 of 30 per cent of annual basic salary into a personal pension plan (£240,000). From 1 February 2010 employer contributions will be equivalent to 50 per cent of annual basic salary.

## Defined benefit pension arrangements

	Accrued annual pension at 31 December 2009 £000	Increase in accrued pension during 2009 £000	Increase in accrued pension during 2009, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2008 <sup>1</sup> £000	Transfer value of accrued pension at 31 December 2009 <sup>1</sup> £000	Increase of transfer value of accrued pension (less personal contributions) in 2009 <sup>1</sup> £000	Transfer value (less personal contributions) at 31 December 2009 relating to increase in accrued pensions during 2009, excluding any increase for inflation <sup>1</sup> £000
A A Flockhart <sup>2</sup>	270	16 <sup>3</sup>	6	4,644	4,863	219	100
S K Green	711	42 <sup>4</sup>	42	17,716	19,119	1,403	1,121
ST Gulliver <sup>5</sup>	–	8 <sup>3</sup>	2	2,749	–	125	–

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

2 A A Flockhart ceased accrual of pension benefits 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 £131,655 per annum as at 31 December 2009.

3 A A Flockhart and ST Gulliver received increases for inflation to their accrued pensions on 1 January 2009 of 4.2 per cent, based on the increase in the UK Retail Prices Index over the year to 31 October 2008.

4 S K Green's total accrued pension received no increase in respect of inflation in 2009. The part of S K Green's pension payable from the HSBC Bank (UK) Pension Scheme receives an annual increase in line with the UK Government's statutory revaluation order for 2009, which is based on the increase in the UK Retail Prices Index over the last year to 30 September 2009. As this was negative, no increase was applied. The additional accrual of benefits is provided by the Employer Funded Retirement Benefits Scheme.

5 ST Gulliver ceased accrual of pension benefits in the International Staff Retirement Benefits Scheme ('ISRBS') on 31 March 2006 and at that time deferred commencement of his pension. ST Gulliver commuted all his benefits out of the ISRBS on 31 May 2009 except for a contingent spouse's pension. A commutation lump sum of £2,743,437 was paid to ST Gulliver in lieu of his entire pension. The ISRBS retains a contingent spouse's liability pension of £63,563 per annum as at 31 December 2009. After 31 May 2009, ST Gulliver stopped accruing pension benefits, and as such he is no longer eligible to take transfers from the Scheme in respect of any spouse's liability.

The following table shows unfunded pension payments, in respect of which provision has been made, during 2009 to five former Directors of HSBC Holdings plc.

	2009 £	2008 £
B H Asher	101,858	97,752
C F W de Croisset	247,115	221,100
R Delbridge	146,507	140,601
Sir Brian Pearce	61,095	58,632
Sir William Purves	107,827	103,481
	664,402	621,566

The payments in respect of R Delbridge and Sir Brian Pearce 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.

## Share plans

At 31 December 2009, the undernamed Directors held options and awards of Performance Shares and Restricted Shares to acquire the number of HSBC Holdings ordinary shares set against their respective names.

## HSBC Holdings savings-related share option plans

HSBC Holdings ordinary shares of US\$0.50

	Exercise price (£)			Exerciseable		Adjustment for rights issue	Awarded during the year	At 31 Dec 2009
	Date of award	At 1 Jan 2009	At 31 Dec 2009	from <sup>1</sup>	until	At 1 Jan 2009		
D J Flint	25 Apr 2007	7.0872	6.1760 <sup>2</sup>	1 Aug 2012	31 Jan 2013	2,310	340	2,650
A A Flockhart	25 Apr 2007	7.0872	6.1760 <sup>2</sup>	1 Aug 2010	31 Jan 2011	1,332	196	– <sup>3</sup>
A A Flockhart	29 Apr 2009	–	3.3116	1 Aug 2014	31 Jan 2015	–	4,529	4,529

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 per cent 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 2009 was £7.088. The highest and lowest market values per ordinary share during the year were £7.612 and £3.0413. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

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

2 Adjusted for rights issue.

3 Options lapsed on 29 April 2009 following closure of the associated savings-related account by the Director.

**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 2009	Awards vested during year <sup>1,2,3</sup>			Awards held at 31 Dec 2009 <sup>2</sup>
				Number	Monetary value £000	Adjustment for rights issue	
V H C Cheng	6 Mar 2006	2009	92,689	21,722	95	13,927	— <sup>3</sup>
	5 Mar 2007	2010	180,739	—	—	27,156	218,035
	3 Jun 2008	2011	130,852	—	—	19,661	157,852
D J Flint	6 Mar 2006	2009	185,378	43,444	191	27,854	— <sup>3</sup>
	5 Mar 2007	2010	270,755	—	—	40,682	326,626
	3 Jun 2008	2011	377,343	—	—	56,696	455,210
A A Flockhart	6 Mar 2006	2009	69,518	16,291	71	10,445	— <sup>3</sup>
	5 Mar 2007	2010	120,395	—	—	18,089	145,238
	3 Jun 2008	2011	128,675	—	—	19,333	155,227
M F Geoghegan	6 Mar 2006	2009	231,724	54,305	238	34,817	— <sup>3</sup>
	5 Mar 2007	2010	615,351	—	—	92,458	742,334
	3 Jun 2008	2011	886,755	—	—	133,237	1,069,746
S K Green	6 Mar 2006	2009	289,653	67,881	298	43,521	— <sup>3</sup>
	5 Mar 2007	2010	461,513	—	—	69,344	556,750
	3 Jun 2008	2011	1,037,692	—	—	155,915	1,251,829
S T Gulliver	6 Mar 2006	2009	115,861	27,152	119	17,409	— <sup>3</sup>
	5 Mar 2007	2010	133,725	—	—	20,092	161,319
	3 Jun 2008	2011	56,063	—	—	8,423	67,631

Vesting of the Performance Share awards granted in 2008 is subject to the achievement of the corporate performance conditions set out on pages 36 and 37. Vesting of the Performance Share awards granted in 2006 and 2007 is subject to the achievement of two independent measures, relative TSR and growth in EPS, each accounting for 50 per cent of the award. The comparator group for the TSR element is comprised of 28 global banks. 30 per cent of this portion of the award vests for median ranked performance with full vesting for upper quartile or above. For the EPS element of the award, 30 per cent will vest if the incremental EPS over the performance period is 24 per cent or more of EPS in the base year with 100 per cent vesting if HSBC's incremental EPS over the performance period is 52 per cent or more of the EPS in the base year. The performance conditions for these awards is described in full on pages 341 and 342 of the Annual Report and Accounts 2009. 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. No awards of Performance Shares were made in 2009.

1 A part of the total shareholder return element of the performance conditions was met and the related part of the award vested on 8 April 2009, when the market value per share was £4.37, as follows: V H C Cheng, 21,394 shares; D J Flint, 42,788 shares; A A Flockhart, 16,045 shares; M F Geoghegan, 53,485 shares; S K Green, 66,856 shares; and S T Gulliver, 26,742 shares. Awards representing the fourth interim dividend for 2008 vested on 6 May 2009, when the market value per share was £5.39, as follows: V H C Cheng, 328 shares; D J Flint, 656 shares; A A Flockhart, 246 shares; M F Geoghegan, 820 shares; S K Green, 1,025 shares; and S T Gulliver, 410 shares. The market value per share on the date of the award, 6 March 2006, was £9.89.

2 Includes additional shares arising from scrip dividends.

3 The earnings per share element and part of the total shareholder return element of the performance conditions were not met and, under the terms of the Plan, the following awards were forfeited on 8 April 2009: V H C Cheng, 86,931 shares; D J Flint, 173,862 shares; A A Flockhart, 65,199 shares; M F Geoghegan, 217,328 shares; S K Green, 271,659 shares; and S T Gulliver, 108,664 shares. As a consequence, the fourth interim dividend for 2008 did not accrue on the forfeited shares.

**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 2009	Awards made during year <sup>1</sup>		Awards vested during year <sup>2</sup>		Adjustments for rights issue	Awards held at 31 Dec 2009 <sup>2</sup>
				Number	Monetary value £000	Number	Monetary value £000		
V H C Cheng	3 Mar 2008	2011	86,158	—	—	—	—	12,945	103,936
	2 Mar 2009	2012	—	416,662	1,662	—	—	61,471	493,545
	31 Oct 2007	2010	53,568	—	—	—	—	8,048	64,621
A A Flockhart	3 Mar 2008	2011	12,488	—	—	—	—	1,877	15,064
	2 Mar 2009	2012	—	420,528	1,678	—	—	62,041	498,124
S T Gulliver	6 Mar 2006	2009 <sup>3</sup>	150,421	—	—	153,193 <sup>4</sup>	611 <sup>4</sup>	—	—
	5 Mar 2007	2009-2010 <sup>3</sup>	319,934	—	—	163,874 <sup>4</sup>	654 <sup>4</sup>	23,894	191,842
	3 Mar 2008	2009-2011 <sup>3</sup>	480,237	—	—	161,399 <sup>4</sup>	644 <sup>4</sup>	48,345	388,157

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. Interests in Restricted Share awards granted in 2007 and 2008 are categorised under the Securities and Futures Ordinance of Hong Kong as the interests of a beneficiary of a trust and interests in Restricted Share awards granted in 2009 are categorised under the Securities and Futures Ordinance of Hong Kong as the interests of a beneficial owner.

1 At the date of the award, 2 March 2009, the market value per share was £3.99.

2 Includes additional shares arising from scrip dividends.

3 33 per cent 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, 2 March 2009, the market value per share was £3.99. The market value per share on the dates of the awards, 6 March 2006, 5 March 2007 and 3 March 2008, was £9.89, £8.96 and £7.90 respectively.