

Report of the Directors: Governance

Corporate Governance Report / Directors

Governance

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Corporate Governance Report

The statement of corporate governance practices set out on pages 183 to 236 and information incorporated by reference constitutes the Corporate Governance Report of HSBC Holdings.

Directors

D J Flint, CBE, Group Chairman

Age 55. Group Chairman and chairman of the Nomination Committee with effect from 3 December 2010. Joined HSBC as Group Finance Director in 1995 and served as Chief Financial Officer, Executive Director, Risk and Regulation from 1 February 2010 until 3 December 2010. A non-executive director of BP p.l.c. since January 2005 and chairman of its Audit Committee since April 2010 but will retire at the BP AGM in April 2011. Director of The Hong Kong Association with effect from 6 February 2011. Co-chairman of the Counterparty Risk Management Policy Group III in 2008. Chaired the Financial Reporting Council's review of the Turnbull Guidance on Internal Control in 2004. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. Served on the Large Business Forum on Tax and Competitiveness and the Consultative Committee of the Large Business Advisory Board of HM Revenue and Customs. A former partner in KPMG.

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

ST Gulliver, Group Chief Executive

Age 51. Group Chief Executive and chairman of the Group Management Board since 1 January 2011. An executive Director since 2008. Joined HSBC in 1980. Appointed a Group General Manager in 2000 and a Group Managing Director in 2004. Chairman of The Hongkong and Shanghai Banking Corporation Limited with effect from 1 January 2011. Chairman of HSBC France since January 2009 and of HSBC Private Banking Holdings (Suisse) SA since 25 February 2010. Deputy chairman of HSBC Trinkaus & Burkhardt AG since 2007 and a member of its Supervisory Board since 2006. Chairman, Europe, Middle East and Global Businesses until 31 December 2010. Chairman of HSBC Bank plc from 21 April 2010 to 31 December 2010 and of HSBC Bank Middle East Limited from 15 February 2010 to 31 December 2010. Head of Global Banking and Markets from 2006 to 2010 and co-head from 2003 to 2006. Head of Global Markets from 2002 to 2003. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002.

Report of the Directors: Governance (continued)

Directors

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

† S A Catz

Age 49. President of Oracle Corporation. A non-executive Director since 2008. Managing Director of Donaldson, Lufkin & Jenrette from 1997 to 1999. Joined Oracle in 1999 and appointed to the Board of Directors in 2001.

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

† L M L Cha, GBS (Appointed 1 March 2011)

Age 61. Non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited. A non-executive Director with effect from 1 March 2011. A non-official member of the Executive Council of Hong Kong SAR. Director of Hong Kong Exchanges and Clearing Limited, Tata Consultancy Services Limited and China Telecom Corporation Limited. Chairman of the ICAC Advisory Committee on Corruption and of the University Grants Committee in Hong Kong. Vice-chairman of the International Advisory Council of the China Securities Regulatory Commission and a Hong Kong delegate to the 11th National People's Congress of China. A member of the Advisory Board of the Yale School of Management, and Millstein Center of Corporate Governance and Performance at Yale University and a Senior International Advisor for Foundation Asset Management Sweden AG. Former appointments include: non-executive director of Bank of Communications Co., Ltd from 2006 to 19 August 2010, Baoshan Iron and Steel Co. Limited and Johnson Electric Holdings Limited. A member of the State Bar of California. She was awarded a Silver Bauhinia Star in 2001 and a Gold Bauhinia Star in 2009 by the Hong Kong Government for her public service.

Mrs Cha has worked in the US and Asia and has extensive regulatory and policy making experience in the finance and securities sector in Hong Kong and mainland China. Mrs Cha was Vice Chairman of the China Securities Regulatory Commission ('CSRC') from January 2001 to September 2004. She was appointed to the post by the State Council and became the first person outside mainland China to join the Central Government of the People's Republic of China at the vice-ministerial rank. Prior to her post at the CSRC, Mrs Cha worked in the Securities and Futures Commission in Hong Kong from 1991 to 2000, becoming its Deputy Chairman in 1998.

V H C Cheng, GBS, OBE

Age 62. Chairman of HSBC Bank (China) Company Limited and, since 21 January 2010, of HSBC Bank (Taiwan) Limited. An executive Director since 2008 and a member of the Corporate Sustainability Committee since 28 May 2010. Joined HSBC in 1978. Appointed a Group General Manager in 1995 and a Group Managing Director in 2005. An independent non-executive director of Great Eagle Holdings Limited and MTR Corporation Limited. Vice chairman of the China Banking Association. A member of the National Committee of the 11th Chinese People's Political Consultative Conference ('CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. Ceased to be chairman and a director of The Hongkong and Shanghai Banking Corporation Limited on 1 February 2010 and of HSBC Global Asset Management (Hong Kong) Limited on 4 February 2010. Ceased to be a director of HSBC Bank Australia Limited and a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority on 1 February 2010 and of HSBC Bank (Vietnam) Limited on 11 November 2010. A non-executive director of Swire Pacific Limited from 2005 to 2008. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2005.

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

† M K T Cheung, GBS, OBE

Age 63. Non-executive chairman of the Airport Authority Hong Kong. A non-executive Director since February 2009 and a member of the Group Audit Committee since 1 March 2010. A non-executive director of Hang Seng Bank Limited, HKR International Limited and Hong Kong Exchanges and Clearing Limited. A non-official member of the Executive Council of the Hong Kong Special Administrative Region. Non-executive chairman of the Council of the Hong Kong University of Science and Technology. A director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Hong Kong International Film Festival Society Limited. Ceased to be a non-executive director of Sun Hung Kai Properties Limited in December 2009. Chairman and Chief Executive Officer of KPMG Hong Kong from

1996 to 2003. A Council Member of the Open University of Hong Kong until June 2009. Awarded the Gold Bauhinia Star by the Hong Kong Government in 2008.

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

† J D Coombe

Age 65. Non-executive chairman of Hogg Robinson Group plc. A non-executive Director since 2005 and chairman of the Group Audit Committee since 30 July 2010. A member of the Remuneration Committee and, since 26 February 2010, of the Group Risk Committee. A non-executive director of Home Retail Group plc. A trustee of the Royal Academy Trust. Former appointments include: executive director and Chief Financial Officer of GlaxoSmithKline plc; non-executive director of GUS plc; a member of the Supervisory Board of Siemens AG; chairman of The Hundred Group of Finance Directors, and a member of the Accounting Standards Board.

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

† R A Fairhead

Age 49. Chairman, Chief Executive Officer and a director of Financial Times Group Limited. A non-executive Director since 2004. Chairman of the Group Risk Committee since 26 February 2010. A member of the Group Audit Committee, having ceased to be chairman on 30 July 2010. A member of the Nomination Committee. A director of Pearson plc and a non-executive director of The Economist Newspaper Limited. A director of the UK Cabinet Office since 16 December 2010. Ceased to be chairman and a director of Interactive Data Corporation on 30 July 2010. Former appointments include Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc and Finance Director of Pearson plc.

Mrs Fairhead brings to the Board a background in international industry, publishing, finance and general management. As the former Finance Director of Pearson plc she oversaw the day to day running of the finance function and was directly responsible for global financial reporting and control, tax and treasury. She has a Master's in Business Administration from the Harvard Business School.

A A Flockhart, CBE

Age 59. Chairman, Europe, Middle East, Africa, Latin America, Commercial Banking and Chairman of HSBC Bank plc with effect from 1 January 2011. An executive Director since 2008. Joined HSBC in 1974. Appointed a Group General Manager in 2002 and a Group Managing Director in 2006. Chairman of HSBC Latin America Holdings (UK) Limited since December 2009. A director of HSBC Bank Australia Limited. A member of the Visa Asia Pacific Senior Advisory Council, Visa Inc. Chairman, Personal and Commercial Banking and Insurance until 31 December 2010. Chairman of HSBC Bank Malaysia Berhad from 2007 to 5 February 2010. Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited from 2007 to 1 February 2010. Ceased to be a director of HSBC Bank (China) Company Limited on 28 February 2010 and of Hang Seng Bank Limited on 31 December 2010. Ceased to be vice chairman and a director of HSBC Bank (Vietnam) Limited on 16 June 2010. President and Group Managing Director Latin America and the Caribbean from 2006 to 2007. Chief Executive Officer, Mexico from 2002 to 2006. Senior Executive Vice-President, Commercial Banking, HSBC Bank USA, N.A. from 1999 to 2002. Managing Director of The Saudi British Bank from 1997 to 1999.

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

† J W J Hughes-Hallett, SBS

Age 60. Chairman of John Swire & Sons Limited. A non-executive Director since 2005. A member of the Nomination Committee and, since 26 February 2010, of the Group Risk Committee. A member of the Group Audit Committee until 1 March 2010. A non-executive director and former chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A non-executive director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A trustee of the Dulwich Picture Gallery and the Esmée Fairbairn Foundation. A member of The Hong Kong Association and the Governing Board of the Courtauld Institute of Art. Awarded the Silver Bauhinia Star by the Hong Kong Government in 2004.

Mr Hughes-Hallett brings to the Board a background in financial accounting and the management of a broad range of businesses in a number of international industries, including aviation, insurance, property, shipping, manufacturing and trading in the Far East, UK, US and Australia. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Report of the Directors: Governance (continued)**Directors / Senior Management**† **W S H Laidlaw**

Age 55. Chief Executive Officer of Centrica plc. A non-executive Director since 2008. A member of the Remuneration Committee. Former appointments include: Executive Vice President of Chevron Corporation; non-executive director of Hanson PLC; Chief Executive Officer of Enterprise Oil plc; and President and Chief Operating Officer of Amerada Hess Corporation.

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

† **J R Lomax**

Age 65. Former Deputy Governor, Monetary Stability, at the Bank of England and a member of the Monetary Policy Committee. A non-executive Director since 2008. A member of the Group Audit Committee since March 2009 and of the Group Risk Committee since 26 February 2010. A non-executive director of The Scottish American Investment Company PLC and Reinsurance Group of America Inc., and since 7 July 2010, of Arcus European Infrastructure Fund GP LLP. A non-executive director of BAA Limited since 24 November 2010. A director of the Council of Imperial College, London and a member of the Board of the Royal National Theatre. A member of the Business Advisory Group to the UK Secretary of State for Business since 18 May 2010. Former appointments include: Deputy Governor of the Bank of England from 2003 to 2008; Permanent Secretary at the UK Government Departments for Transport and Work and Pensions and at the Welsh Office from 1996 to 2003; and Vice President and Chief of Staff to the President of the World Bank from 1995 to 1996.

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

I J Mackay, Group Finance Director

Age 49. An executive Director since 3 December 2010. Joined HSBC in 2007. A Director of Hang Seng Bank Limited until 31 December 2010. Chief Financial Officer, Asia Pacific from September 2009 to 3 December 2010 and Chief Financial Officer, North America from 2007 to September 2009. Former appointments include: Vice President and Chief Financial Officer of GE Consumer Finance and Vice President and Chief Financial Officer of GE Healthcare – Global Diagnostic Imaging.

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

† **G Morgan**, CM

Age 65. Non-executive Chairman of SNC-Lavalin Group Inc. A non-executive Director since 2006. A member of the Remuneration Committee. A member of the Board of Trustees of The Fraser Institute and the Manning Centre for Building Democracy. A non-executive director of HSBC Bank Canada from 1996 to 2006. Former appointments include Founding President, Chief Executive Officer and Vice Chairman of EnCana Corporation; director of Alcan Inc.; and director of Lafarge North America, Inc.

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

† **N R N Murthy**, CBE

Age 64. Chairman and Chief Mentor and former Chief Executive Officer of Infosys Technologies Limited. A non-executive Director since 2008. Chairman of the Corporate Sustainability Committee since 28 May 2010. A director of the United Nations Foundation. Ceased to be a director of Unilever plc on 12 May 2010. Former appointments include: a non-executive director of DBS Group Holdings Limited, DBS Bank Limited and New Delhi Television Limited.

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

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

Age 69. Non-executive chairman of Rolls-Royce Group plc and the founder member of Simon Robertson Associates LLP. A non-executive Director since 2006. Senior independent non-executive Director since 2007 and Deputy Chairman since 1 December 2010. A member of the Nomination Committee. A non-executive director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and Royal Opera House Covent Garden Limited. A trustee of the Eden Project Trust and of the Royal Opera House Endowment Fund.

Former appointments include Managing Director of Goldman Sachs International and chairman of Dresdner Kleinwort Benson.

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

† J L Thornton

Age 57. A non-executive Director since 2008. Chairman of the Remuneration Committee since 28 May 2010. Non-executive chairman and a director of HSBC North America Holdings Inc since 2008. Professor and director of the Global Leadership Program at the Tsinghua University School of Economics and Management. Chairman of the Brookings Institution Board of Trustees. A non-executive director of Ford Motor Company, News Corporation, Inc. and China Unicom (Hong Kong) Limited. A director of National Committee on United States-China Relations and a Trustee of Asia Society, China Institute, The China Foreign Affairs University, the Palm Beach Civic Association and the United World College of East Africa Trust. A member of the Council on Foreign Relations, the China Securities Regulatory Commission International Advisory Committee and China Reform Forum International Advisory Committee. Former appointments include: a non-executive director of Industrial and Commercial Bank of China Limited from 2005 to 2008; Intel Corporation, Inc. from 2003 to 18 May 2010; and President of the Goldman Sachs Group, Inc. from 1999 to 2003.

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

† Sir Brian Williamson, CBE

Age 66. A non-executive Director since 2002. A member of the Nomination Committee, having ceased to be its chairman on 26 February 2010. A director of NYSE Euronext. Chairman of Electra Private Equity plc until 24 May 2010. Former appointments include: chairman of London International Financial Futures and Options Exchange and Gerrard Group plc; a director of Climate Exchange plc; and a non-executive director of Resolution plc, the Financial Services Authority and the Court of The Bank of Ireland.

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

† Independent non-executive Director

Secretary

R G Barber

Age 60. Group Company Secretary since 1986. Appointed a Group General Manager in 2006. Joined HSBC in 1980. Company Secretary of HSBC Holdings plc since 1990. Chairman of the Disclosure Committee. A member of the Listing Authority Advisory Committee of the Financial Services Authority and of the Primary Markets Group of the London Stock Exchange. Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992 and Company Secretary of HSBC Bank plc from 1994 to 1996.

Adviser to the Board

D J Shaw

Age 64. An Adviser to the Board since 1998. Solicitor. A former partner in Norton Rose. A director of HSBC Bank Bermuda Limited, HSBC Private Banking Holdings (Suisse) SA and HSBC Private Bank (Suisse) SA. An independent non-executive director of Kowloon Development Company Limited and Shui On Land Limited.

Group Managing Directors

A Almeida

Age 54. Group Head of Human Resources. A Group Managing Director since 2008. Joined HSBC in 1992. Appointed a Group General Manager in 2007. Former appointments include Global Head of Human Resources for Global Banking and Markets, Global Private Banking, Global Transaction Banking and HSBC Amanah from 1996 to 2007.

E Alonso

Age 55. Group Managing Director and Head of HSBC Latin America and the Caribbean. A Group Managing Director since 2008. Joined HSBC in 1997. Appointed a Group General Manager in 2006. Chairman Grupo Financiero HSBC, S.A. de C.V. and HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC. President of the Board of Directors of HSBC Bank (Panamá) S.A. A director

Report of the Directors: Governance (continued)

Senior Management // Board of Directors > The Board

of HSBC Latin America Holdings (UK) Limited and HSBC Argentina Holdings S.A. A director of HSBC Bank Brasil S.A. – Banco Múltiplo and Managing Director of HSBC Serviços e Participações Ltda from 2004 to 2008. Managing Director of HSBC (Brasil) Administradora de Consorcio Ltda. from 2001 to 2008.

S Assaf

Age 50. Chief Executive, Global Banking and Markets. A Group Managing Director since 1 January 2011. Joined HSBC France in 1994. Appointed a Group General Manager in 2008. A director of HSBC Bank Egypt S.A.E. since 22 June 2010 and a director of HSBC Global Asset Management Limited. Head of Global Markets from 2008 to 31 December 2010. Deputy Head of Global Markets from 2007 to 2008. Head of Global Markets for Europe, Middle East and Africa from 2006 to 2007.

N S K Booker

Age 52. Chief Executive Officer, HSBC North America Holdings Inc. A Group Managing Director since 1 August 2010. Joined HSBC in 1981. Appointed a Group General Manager in 2004. Chairman of HSBC Bank USA, National Association, HSBC Financial Corporation and HSBC USA Inc. since 31 July 2010. Chief Executive Officer of HSBC Finance Corporation from 2008 to July 2010. Deputy Chairman and Chief Executive Officer of HSBC Bank Middle East Limited from 2006 to 2007. Chief Executive Officer, India from 2002 to 2006.

A M Keir

Age 52. Global Head of Commercial Banking. A Group Managing Director since 1 January 2011. Joined HSBC in 1981. Appointed a Group General Manager in 2006. A director of HSBC Bank A.S. Group General Manager, Commercial Banking, Europe and Global Co-Head, Global Commercial Banking from 2008 to 31 December 2010. Global Co-Head of the Group's commercial banking activities from 2003 to 2008.

M M Moses

Age 53. Group Chief Risk Officer. A Group Managing Director since 3 December 2010. Joined HSBC in 2005. Appointed a Group General Manager on 27 May 2010. A director of HSBC Insurance (Bermuda) Limited since 2 December 2010. Chief Financial and Risk Officer, Global Banking and Markets from 2005 to 2 December 2010.

B Robertson

Age 56. Chief Executive, HSBC Bank plc since 3 December 2010. A Group Managing Director since 2008. Joined HSBC in 1975. Appointed a Group General Manager in 2003. Chairman of HSBC Life (UK) Limited and a director of HSBC Bank plc since 3 December 2010. Group Chief Risk Officer from 2007 to 2 December 2010. Group General Manager, Group Credit and Risk from 2005 to 2007 and Head of Global Banking and Markets for North America from 2003 to 2005.

P A Thurston

Age 57. Chief Executive, Retail Banking and Wealth Management with effect from 1 March 2011. A Group Managing Director since 2008. Joined HSBC in 1975. Appointed a Group General Manager in 2003. A director of HSBC Bank plc. Chief Executive of HSBC Bank plc from April 2009 to 3 December 2010. Chairman of HSBC Life (UK) Limited from 24 March 2010 to 30 November 2010.

P T S Wong

Age 59. Chief Executive, The Hongkong and Shanghai Banking Corporation Limited. A Group Managing Director since 1 February 2010. Joined HSBC and appointed a Group General Manager in 2005. Deputy Chairman of HSBC Bank (China) Company Limited. Chairman of HSBC Bank Malaysia Berhad since 5 February 2010. Vice Chairman of HSBC Bank (Vietnam) Ltd since 16 June 2010. A director of Hang Seng Bank Limited, Bank of Communications Co., Ltd. and Ping An Insurance (Group) Company of China, Ltd. A non-executive director of Cathay Pacific Airways Limited. A director of HSBC Bank Australia Limited from 1 February 2010 to 1 February 2011.

Board of Directors

The Board

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

HSBC Holdings has a unitary Board. The authority of each Director is exercised in Board meetings where the Board acts collectively. At 28 February 2011, the Board comprises the Group Chairman, Group Chief Executive, three other executive Directors and 12 non-executive Directors. Their names and brief biographical particulars are listed on pages 183 to 187. The Group Chairman, Group Chief Executive and three other executive Directors are employees. Non-executive Directors are not HSBC employees and do not participate in the daily business management of HSBC; they bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. The non-executive Directors bring experience from a number of industries and business sectors, including the leadership of large complex multinational enterprises. The roles of non-executive Directors as members of Board committees are described on pages 194 to 198 and on pages 201 and 202.

The Board has determined that the time commitment expected of non-executive Directors to be not less than 24 days per annum and not less than 30 days per annum in total for non-executive Directors appointed to the Group Audit Committee, Group Risk Committee or Remuneration Committee and for the Deputy Chairman and senior independent non-executive director. The time commitment of each non-executive Director is set out in the Director's letter of appointment.

The terms and conditions of appointment of non-executive Directors are available for inspection at 8 Canada Square, London E14 5HQ and will be made available for 15 minutes before the Annual General Meeting and during the Meeting itself.

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

HSBC Holdings was registered in Hong Kong under part IX of the Companies Ordinance on 17 January 1991.

Report of the Directors: Governance (continued)**Board of Directors > The Board**

Nine Board meetings and a two-day strategy meeting were held in 2010. At least one Board meeting each year is held in a key strategic location outside the UK. During 2010, a Board meeting was held in Shanghai.

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

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

During 2010, the non-executive Directors and the Group Chairman met three times without the other executive Directors and the non-executive Directors and Group Chairman and Group Chief Executive met once without the other executive Directors. The non-executive Directors also met without the Group Chairman to appraise the Group Chairman's performance.

All those who were Directors at the time attended the 2010 Annual General Meeting save for V H C Cheng and J L Thornton.

Attendance record

	Meetings attended in 2010					
	Board	Group Audit Committee	Group Risk Committee ¹	Nomination Committee	Remuneration Committee	Corporate Sustainability Committee
Number of meetings held	9	6	4	3	9	5
S A Catz	8	—	—	—	—	—
V H C Cheng	7	—	—	—	—	1 ²
M K T Cheung	8	4 ³	—	—	—	—
J D Coombe	9	6	4	—	9	—
J L Durán ⁴	2	—	—	—	—	—
R A Fairhead	8	5	3	2	—	—
D J Flint	9	—	—	— ⁵	—	—
A A Flockhart	9	—	—	—	—	—
W K L Fung ⁶	4	—	—	—	—	3
M F Geoghegan	8	—	—	—	—	—
Lord Green ⁷	8	—	—	2	—	—
S T Gulliver	9	—	—	—	—	—
J W J Hughes-Hallett	8	2 ⁸	2	3	—	—
W S H Laidlaw	9	—	—	—	9	—
J R Lomax	8	6	4	—	—	—
I J Mackay ⁹	—	—	—	—	—	—
Sir Mark Moody-Stuart ¹⁰	4	—	—	—	4	2
G Morgan	7	—	—	—	6	—
N R N Murthy	7	—	—	—	—	5
Sir Simon Robertson	9	—	—	3	—	—
J L Thornton	8	—	—	—	9	—
Sir Brian Williamson	8	—	—	3	—	—

1 All members appointed on 26 February 2010 when the Committee was established. All members eligible to attend 4 Committee Meetings.

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

3 Appointed a member on 1 March 2010 – eligible to attend 4 Committee Meetings.

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

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

6 Retired as a Director on 28 May 2010 – eligible to attend 4 Board Meetings and 3 Committee Meetings.

7 Appointed a member of the Nomination Committee on 26 February 2010 and retired as a Director on 3 December 2010 – eligible to attend 8 Board Meetings and 2 Committee Meetings.

8 Ceased to be a member on 1 March 2010 – eligible to attend 2 Committee Meetings.

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

10 Retired as a Director on 28 May 2010 – eligible to attend 4 Board Meetings, 4 Remuneration Committee Meetings and 3 Corporate Sustainability Committee Meetings.

Group Chairman and Group Chief Executive

The roles of Group Chairman and Group Chief Executive are separate and held by experienced full-time Directors.

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

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

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

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

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

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

Board balance and independence of Directors

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

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

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

Report of the Directors: Governance (continued)

Board of Directors > The Board

is a clear division of responsibility between the Group Chairman and Group Chief Executive.

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

In accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, each non-executive Director determined by the Board to be independent has provided an annual confirmation of his or her independence to HSBC Holdings.

Information, induction and ongoing development

The Board regularly reviews reports on progress against financial objectives, business developments and investor and external relations and receives reports from the chairmen of Board committees and from the Group Chief Executive. The Board receives regular reports and presentations on strategy and developments in the customer groups, global businesses and principal geographical areas. Regular reports are also provided to the Board, the Group Audit Committee, the Group Risk Committee and the Risk Management Meeting of the GMB on credit exposures and the loan portfolio, asset, liability and risk management, liquidity, litigation and finance, compliance and reputational issues. The agenda and supporting papers are distributed in advance of all Board and committee meetings to allow time for appropriate review and to facilitate full discussion at the meetings. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

The Directors have free and open contact with management at all levels. Group Managing Directors and Group General Managers meet informally with Directors after Board meetings. Board offsite visits are made each year to enable Directors to see at first hand the business operations in local environments and to meet management, employees and customers.

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

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

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

Non-executive Directors have an open invitation to attend meetings of the GMB to further enhance their understanding and awareness of our businesses and the senior leadership team.

Performance evaluation

In November 2010, Oliver Wyman was commissioned to review and report on the effectiveness of the Board and its principal committees with a particular focus on risk management and governance responsibilities. Oliver Wyman's report was prepared following interviews with Directors and senior members of management and a review of relevant documents. Factors assessed

during Oliver Wyman's review included experience and skills of individual Directors, breadth and mix of skills and expertise across the Board and its committees, decision making processes, group culture and dynamics and interaction between the Board and the executive.

The Oliver Wyman report concluded that the Board operates effectively with a number of important strengths. The report identified some areas where effectiveness could be enhanced.

The report was used by the Board in its annual evaluation of its own performance and the performance of its committees and individual Directors. The Board will monitor implementation of actions to address issues arising from its 2010 performance evaluation. All actions arising from the Board's 2009 performance evaluation have been implemented.

It is the intention of the Board to continue to undertake an evaluation of its performance and that of its committees and individual Directors annually, with external input to the process at least every third year.

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

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

Oliver Wyman has provided and continues to provide strategic consultancy services to the Group.

Appointment, retirement and re-election of Directors

The Board may at any time appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors shall not exceed twenty-five. Any Director so appointed by the Board shall retire at the Annual General Meeting following his or her appointment and shall be eligible for re-election but is not taken into account in determining the number of Directors who are to retire by rotation at such meeting. The Board may appoint any Director to hold any employment or executive office and may revoke or terminate any such appointment.

Shareholders may, by ordinary resolution, appoint a person as a Director or remove any Director before the expiration of his period of office. On the recommendation of the Nomination Committee and in compliance with provision B.7.1 of the UK Corporate Governance Code, which replaces the Combined Code on Corporate Governance for financial years beginning on or after 29 June 2010, the Board has decided that all of the Directors should be subject to annual re-election by shareholders. Accordingly, all of the Directors will retire at the forthcoming Annual General Meeting and with the exception of V H C Cheng, who is to retire, offer themselves for re-election. All the executive Directors are employed on rolling contracts which require 12 months' notice to be given by either party. None of the non-executive Directors has a service contract with HSBC.

Brief biographical particulars of all Directors are given on pages 183 to 187.

Relations with shareholders

The Board ensures all Directors develop an understanding of the views of major shareholders. Non-executive Directors are invited to attend analyst presentations and other meetings with institutional investors and their representative bodies. Directors also meet representatives of institutional shareholders annually to discuss corporate governance matters.

All executive Directors and other senior executives hold regular meetings with institutional investors and report to the Board on those meetings. Our corporate brokers give bi-annual presentations to the Board on market views and investor relations. The Board receives a regular Investor Relations activity report which provides feedback from institutional shareholders and brokers, analysts' forecasts, information from research reports and share price performance data.

During 2010, Sir Simon Robertson, Deputy Chairman and senior independent non-executive Director, J L Thornton and other non-executive Directors met and corresponded with institutional investors and their representatives to discuss strategy, remuneration policy, succession and governance. As senior independent non-executive Director, Sir Simon Robertson is available to shareholders should they have concerns which contact through the normal channels of Group Chairman, Group Chief Executive, Group Finance Director or other executives has failed to resolve or for which such contact would be inappropriate. He

Report of the Directors: Governance (continued)

Board of Directors > The Board // Board committees > Group Management Board / Group Audit Committee

may be contacted through the Group Company Secretary at 8 Canada Square, London E14 5HQ.

Conflicts of interest, indemnification of Directors, relevant audit information and contracts of significance

The Board has authority to approve Directors' conflicts and potential conflicts of interest and has adopted a policy and procedures for the determination of terms of authorisation for such situations. The Board's powers to authorise conflicts are operating effectively and the procedures are being followed. A review of situational conflicts which have been authorised from time to time and the terms of those authorisations is undertaken by the Board annually.

Our Articles of Association provide that Directors are entitled to be indemnified out of the assets of HSBC Holdings against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions pursuant to the provisions of the Companies Act 2006. Such indemnity provisions have been in place during the financial year but have not been utilised by the Directors.

Each person who is a Director at the date of approval of this report confirms that so far as he or she is aware, there is no relevant audit information of which the auditor is unaware and the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith and subject to the provisions thereof.

None of the Directors had, during the year or at the end of the year, a material interest, directly or indirectly, in any contract of significance with any HSBC company.

Corporate governance codes

We are committed to high standards of corporate governance. We have complied throughout the year with the applicable code provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council, save for code provision A.2.2 as D J Flint, who had previously served as Chief Financial Officer, Executive Director, Risk and Regulation, did not meet the independence criteria of the Combined Code on Corporate Governance when he was appointed Group Chairman on 3 December 2010. The Board's

explanation of its decision to appoint D J Flint is set out on page 191. We have complied throughout the year with all applicable code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Combined Code on Corporate Governance is available at www.frc.org.uk 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 appointed a number of committees consisting of certain Directors, Group Managing Directors and, in the case of the Corporate Sustainability Committee, certain co-opted non-director members. Information in relation to the principal committees is set out below:

Group Management Board

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

The members of the GMB are S T Gulliver (Chairman), A A Flockhart and I J Mackay, who are executive Directors, and A Almeida, E Alonso, S Assaf, N S K Booker, A M Keir, M M Moses,

B Robertson, P A Thurston and P T S Wong, all of whom are Group Managing Directors.

The GMB exercises the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of HSBC Holdings. Matters reserved for approval by the Board are described on page 189.

The Group Chief Executive reports to each meeting of the Board on the activities of the GMB.

Group Audit Committee

The Report of the Group Audit Committee is set out below.

Role and membership of the Group Audit Committee

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

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

Appointments to the Committee are made for periods of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.

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.

The terms of reference of the Committee, which are reviewed annually, are available at www.hsbc.com/boardcommittees.

To ensure consistency of scope and approach by subsidiary company audit committees, the GAC has established core terms of reference to guide subsidiary companies when adopting terms of reference for their audit committees. The Committee's endorsement is required for any proposed changes to subsidiary audit committee terms of reference and for appointments to such committees. The chairmen of our principal subsidiary audit committees attended a forum in November 2010 led by the chairman of the GAC to ensure a common understanding and approach to the way in which subsidiary audit committees operate throughout the Group; understand and share the key issues we face as an organisation and as audit committee members; and discuss current market conditions and the lessons to be learned from the financial crisis.

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

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

The governance structure for the oversight of our financial reporting and governance is set out below:

Report of the Directors: Governance (continued)

Board committees > Group Audit Committee / Group Risk Committee

Authority	Membership	Responsibilities
The Board	<ul style="list-style-type: none"> Executive and non-executive Directors 	<ul style="list-style-type: none"> Approves financial statements Appoints senior financial officers Delegates authorities in relation to financial matters
The GAC	<ul style="list-style-type: none"> Independent non-executive Directors 	<ul style="list-style-type: none"> Advises the Board on: <ul style="list-style-type: none"> ensuring an effective system of internal control and compliance over financial reporting; and meeting its external financial reporting obligations Responsible for selection, oversight and remuneration of the external auditor
Boards and audit committees of principal subsidiaries	<ul style="list-style-type: none"> In relation to boards, executive and non-executive directors. Committees may have additional members who are not directors. 	<ul style="list-style-type: none"> Provide bi-annual certificates to the GAC or intermediate audit committees relating to financial statements and internal control procedures of relevant subsidiary

Committee's activities

The Committee held six meetings in 2010 – see page 190 for details of Directors' attendance at these meetings. Following each meeting the Committee reports to the Board on its activities.

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

- 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; presentations from other functional and business heads on the financial control framework; review of minutes of meetings of the GMB, the GRC, Risk Management Meetings, the Group Reputational Risk Committee and the Disclosure Committee; reports on US compliance; and through the processes described in more detail on page 202 in relation to internal controls. The Committee also reviewed the adequacy of resources, qualifications and experience of staff in the finance function. The Group Head of Compliance and the Group Chief Risk Officer regularly attended Committee meetings and other senior financial, internal audit, legal and compliance executives attended as appropriate. The Committee had regular dialogue with the external auditor and the Group Head of Internal Audit, with opportunities at each meeting for dialogue to take place without management present;
- the Committee satisfied itself that the internal audit function was effective and adequately resourced through regular meetings with and reports from the Group Head of Internal Audit on internal audit issues and review of an annual report on the activities of the internal audit function and planned activities for the following year;
- the Committee received regular updates on the application of changes in law, regulation and accounting policies and practices including financial reporting pursuant to the Sarbanes-Oxley Act, Basel II compliance and changes to the FSA's large exposure rules;
- the Committee provided oversight of the external auditor through regular meetings with the external auditor, reviewing the auditor's strategy paper in relation to the audit and receiving reports on the effectiveness and progress of the audit of financial statements. The Committee has approved policies on the provision of non-audit services by the auditor and its affiliates and on the employment by HSBC of former employees of the auditor or its affiliates. The Committee reviewed the independence and objectivity of the auditor through meetings with the auditor, annual reports on employment of former employees of the 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 the auditor;
- the Committee advised the Board on meeting its external financial reporting obligations through a review of financial statements and interim statements prior to approval by the Board; endorsement of the inclusion of the going concern statement in financial statements; review of the disclosure of the results of the EU-wide stress test conducted by the Committee of European Banking Supervisors; a presentation from the Head of Group Planning and Tax on the Group's tax position; review of accounting

policies and practices, including approval of the critical accounting policies; reports on proposed changes to the Group's disclosures in the financial statements; reports from the Disclosure Committee; reports on the adequacy of procedures to identify transactions and matters requiring disclosure under certain accounting standards; and reports on the audit process; and

- the Committee undertook a review of its terms of reference and its effectiveness.

Some of the activities of the GRC described on page 200 were carried out by the GAC prior to the establishment of the GRC in February 2010. Since February 2010 some of those activities are carried out by the GRC and the GAC. The description of these activities is not repeated in the list above.

Arrangements relating to the external auditor

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

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

The Board has approved, on the recommendation of the Committee, a policy for the employment by us of former employees of KPMG and an annual report is received by the Committee on such former employees who are employed by us and the number of such former employees who are employed by us in senior positions. This report enables the Committee to consider whether there has been any impairment, or appearance of impairment, of the auditor's judgement or independence in respect of the audit.

The policies for the pre-approval of specific services that may be provided by the principal auditor are kept under review by the Committee and amended as necessary to meet the dual objectives of ensuring that we benefit in a cost effective manner from the cumulative knowledge and experience of our auditor, while also ensuring that our auditor maintains the necessary degree of independence and objectivity. These pre-approval policies apply to all services where any HSBC company pays for the service, or is a beneficiary or addressee of the service and has selected or influenced the choice of KPMG. All services provided by KPMG during 2010 were pre-approved by the Committee or were

entered into under pre-approval policies established by the Committee.

The pre-approved services relate to regulatory reviews, agreed-upon procedures reports, other types of attestation reports, the provision of advice and other non-audit services allowed under SEC independence rules. They fall into the categories of audit services, audit-related services, tax services and other services.

Group Risk Committee

The Report of the Group Risk Committee is set out below.

Role and membership of the Group Risk Committee

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

Historically the GAC has provided non-executive oversight of risk as well as financial reporting. As noted in the section headed 'Group Audit Committee' above there is currently a degree of overlap between responsibilities of the GAC and the GRC in relation to risk governance and oversight matters and internal controls. Each committee is reviewing its terms of reference with the aim of minimising the overlap.

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

The Committee's terms of reference, which are reviewed annually, are available at www.hsbc.com/boardcommittees.

To ensure consistency of scope and approach by subsidiary company committees, the GRC has established core terms of reference to guide subsidiary companies when adopting terms of reference for their risk committees (or their audit committees if those committees are also responsible for risk oversight). The Committee's endorsement is required for any proposed changes to the terms of reference of any subsidiary committee relating to risk oversight and for appointments to such committees.

Report of the Directors: Governance (continued)

Board committees > Group Risk Committee

The chairmen of committees of principal subsidiaries with responsibility for oversight of risk attended the forum referred to on page 195. One of the purposes of the forum was to ensure a common understanding and approach to the way in which subsidiary committees operate in relation to risk oversight throughout the Group; to understand and share the key risk issues we face as an organisation and the issues faced by members of committees responsible for oversight of risk; and to discuss the lessons to be learned from the financial crisis.

Risk governance

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

The Committee is responsible for overseeing the Group's risk governance structure and monitoring the effectiveness of the Group's risk management and internal control systems. The Committee monitors top and emerging risks and reviews the outcome of internal and external stress tests.

In carrying out its responsibilities the Committee is closely supported by the Group Chief Risk Officer, who ensures that top and emerging risks are reported to and considered by the Committee. The Committee receives regular presentations from the Group Head of Internal Audit and other business, function and risk heads on risks within their respective areas of responsibility and regular reports from the Risk Management Meeting of the GMB, which is the executive body responsible for overseeing risk.

The governance structure for the management of risk at HSBC is set out below. Appropriate governance arrangements are in place in regional and operating subsidiaries.

Authority	Membership	Responsibilities
The Board	Executive and non-executive Directors	<ul style="list-style-type: none"> • Approves risk appetite, plans and performance targets for the Group • Appoints senior risk officers • Delegates authorities for risk management
The GRC	Independent non-executive Directors	<ul style="list-style-type: none"> • Advises the Board on: <ul style="list-style-type: none"> – risk appetite, tolerance and strategy; – stress testing; – systems of risk management, internal control and compliance used to identify, measure, monitor, control and report risks; – the alignment of the Board's risk appetite with strategy and reward; and – the maintenance and development of a supportive culture in relation to the management of risk.
Risk Management Meeting of the GMB	Group Chief Executive Group Chief Risk Officer Group Finance Director Senior management	<ul style="list-style-type: none"> • Formulates high-level Group risk policy • Exercises delegated risk authorities • Oversees implementation of risk appetite and controls • Monitors all categories of risk and determines action
Global Risk Management Board	Group Chief Risk Officer Chief Risk Officers of HSBC's regions Heads of risk disciplines within Group Management Office	<ul style="list-style-type: none"> • Supports the Risk Management Meeting and the Group Chief Risk Officer in providing strategic direction for the Global Risk function, sets priorities and oversees their execution • Oversees consistent risk approach to accountability and control across the Global Risk function

Risk appetite

Risk appetite is central to HSBC's management of risk. The Board, advised by the GRC, approves the Group's risk appetite which describes the types and

levels of risk that the Group is prepared to accept in executing our strategy. Our risk appetite is underpinned by the following core characteristics:

Risk appetite: core characteristics

- Strong balance sheet
- Strong brand
- Healthy capital position
- Conservative liquidity management
- Risk must be commensurate with returns
- Robust Group structure of separate legal entities
- The customer group and global product mix should produce sustainable long term earnings growth
- Risk diversification

The GRC monitors the Group's risk appetite and satisfies itself that executive management has taken account of the future macroeconomic and financial environment in identifying top and emerging risks.

From the core characteristics of the Group's risk appetite (see table above), our strategic and operational objectives are determined which are consistent with the Group's risk appetite. These objectives are summarised in the table below:

Strategic and operational objectives

Earnings	1. Generate sustainable economic profit commensurate with the risks taken
Capital and liquidity	2. Maintain capital in excess of regulatory requirements and a long term debt rating of AA
	3. Maintain a strong tier 1 ratio comprising a high proportion of core tier 1
	4. Maintain a well diversified funding structure with a particular focus on advances to core funding ratios
	5. Off balance sheet vehicles should not be material in size relative to the total balance sheet
Impairments and expected losses	6. Manage impairments and expected losses within the Group's tolerance
Risk category and diversification	7. Manage all risk categories within the risk appetite
	8. Harness benefits from business diversification to generate non-volatile and sustainable earnings
	9. Compete for business with international customers where market connectivity is critical; businesses with local customers where we have local scale, and products where global scale is critical to effectiveness
Scenario and stress testing	10. Use robust and appropriate scenario stress testing to assess the potential impact on the Group's capital adequacy and strategic plans

Top and emerging risks

Identifying and monitoring top and emerging risks is integral to HSBC's approach to risk management. We define a 'top risk' as being a current, visible risk which has the potential to have a material impact on our financial results, reputation or the sustainability of our long-term business model. An 'emerging risk' is one which has large unknown components which,

if they were to crystallise, could have material impact on our long-term strategy.

Current top and emerging risks are viewed as falling under four broad categories: challenges to business operations; challenges to governance and internal control; macro-economic and geopolitical; and macro-prudential and regulatory. These are summarised below:

Categories / definitions	Top and emerging risks
Challenges to our business operations	<ul style="list-style-type: none"> • Challenges to our operating model in an economic downturn (in developed economies) and rapid growth (in emerging markets) • Internet crime and fraud
Challenges to our governance and internal control systems	<ul style="list-style-type: none"> • Operational complexity associated with high levels of change • Information security risk
Macro-economic and geopolitical risk	<ul style="list-style-type: none"> • Potential emerging markets asset bubble • Increased geopolitical risk in the Middle East, with possible contagion
Macro-prudential and regulatory risks to our business model	<ul style="list-style-type: none"> • Regulatory change impacting business model and Group profitability • Regulatory requirements affecting conduct of business

Report of the Directors: Governance (continued)

Board committees > Group Risk Committee / Remuneration Committee / Nomination Committee

Stress testing

HSBC's scenario analysis and stress testing programme is central to the identification and monitoring of top and emerging risks. It highlights the vulnerabilities of our business and capital plans to the adverse effects of extreme but plausible events. The GRC reviews the outcome of the stress tests performed.

There are three main classifications of scenario and stress tests: regulatory scenarios; Group level business scenarios; and local business scenarios. The GRC uses the outcome of the programme to assess the potential impact of the relevant scenarios on the demand for regulatory capital compared with its supply. Management develops action plans to mitigate the risks identified. The extent to which those action plans are implemented depends on management's evaluation of the risks and their potential consequences, taking into account HSBC's risk appetite.

Committee activities

The Committee held four meetings in 2010 – see page 190 for details of Directors' attendance. Following each meeting the Committee reports to the Board on its activities.

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

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

- the Committee provided oversight of executive risk management through regular reports from the Group Chief Risk Officer and the Risk Management Meeting of the GMB; review of minutes of meetings of the GMB, the Risk Management Meeting, the Remuneration Committee and the Group Reputational Risk Committee; reports from the Group General Counsel on substantial litigation; a report from the Remuneration Committee on risk related matters; and updates on the Swiss data theft referred to on page 83. The Group Finance Director and the Group Chief Accounting Officer regularly attended committee meetings and other senior financial, risk, internal audit, legal and compliance executives attended as appropriate;
- the Committee reviewed the effectiveness of internal controls through a cycle of

presentations from the Group Chief Risk Officer and other business and functional heads on the risk control framework; reports from the Group Head of Internal Audit on the internal audit process and weaknesses identified in internal controls and reports of the external auditor and regulators relating to the internal control system; updates from the Group Head of Compliance; and reports from the Group General Counsel and other senior executives on US compliance matters. The Committee undertook an annual review of the effectiveness of HSBC's system of internal control, which is described on page 202. The Committee had regular dialogue with the external auditor and the Group Head of Internal Audit, with opportunities at each meeting for dialogue to take place without management present;

- the Committee considered the Group's risk appetite and the alignment of strategy with risk appetite through reviewing the Group's risk appetite statement and reports on liquidity and capital management; receiving reports from the Chief Risk Officer; and considering the outcomes of the scenario and stress testing programme;
- the Committee considered the alignment of reward structures with the Group's risk appetite through a report from the Group Head of HR on procedures to be used when determining an individual's variable pay award for the 2010 performance period. These procedures include making assessments of the profitability of the business area in which an individual works and the performance of that business area when compared to the approved risk appetite in respect of that business. The performance of the individual is also assessed taking into account the extent to which that individual has adhered to the Group's policies and procedures for risk related matters and has achieved specified performance targets or objectives (such as a revenue or profit target). These procedures were considered by the Remuneration Committee in early 2011. An update was also provided on a review of variable pay plans throughout the Group;
- in monitoring top and emerging risks the Committee satisfied itself that it understood and took into account the views of senior management; reviewed minutes of executive committee meetings including meetings of the GMB, the Risk Management Meeting and Group Reputational Risk Committee; received reports from the Group Chief Risk Officer and

the Group Head of Compliance as well as other members of senior management on developments in the Group's business; and received regular presentations on global market risk and liquidity and the impact of the tightening of liquidity in the money markets;

- the Committee considered risk issues relating to a proposed strategic acquisition and discussed a report from the Group Head of Mergers and Acquisitions and other members of senior management involved in the proposed acquisition; and
- the Committee undertook a review of its terms of reference and its effectiveness.

External advice on US-related compliance matters was provided to the GRC by US law firm Cahill Gordon & Reindel and by Promontory Financial Group, US financial consultants.

Some of the activities referred to above were carried out by the GAC prior to the establishment of the GRC in February 2010. Since February 2010 some of those activities are carried out by the GRC and the GAC.

Remuneration Committee

The role of the Remuneration Committee and its membership are set out in the Directors' Remuneration Report on page 222.

Nomination Committee

Role and membership of the Nomination Committee

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

The members of the Nomination Committee throughout 2010 were Sir Brian Williamson, R A Fairhead, Sir Simon Robertson and J W J Hughes-Hallett, all independent non-executive

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

The terms of reference of the Committee, which are reviewed annually, are available at www.hsbc.com/boardcommittees.

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

Committee activities

The Committee held three meetings in 2010 – see page 190 for details of Directors' attendance at these meetings. Following each meeting the Committee reports to the Board on its activities.

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

- under the chairmanship of the senior independent non-executive Director, the Committee led the succession process for the Group Chairman and the Group Chief Executive. The process is described on page 191;
- 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;
- the Committee maintains a forward-looking schedule of potential candidates for appointment to the Board that takes into account the needs and developments of the Group's businesses and the anticipated retirement dates of current Directors. On the recommendation of the Committee, the Board has appointed L M L Cha as a non-executive Director with effect from 1 March 2011;
- the Committee monitored the size, structure and composition of the Board through consideration

Report of the Directors: Governance (continued)

Board committees > Corporate Sustainability Committee // Internal control

of the skills, knowledge and experience required of the Board and the skills, knowledge and experience of the current Directors. The Committee reviewed the time commitment required from non-executive Directors taking into account the recommendations of Sir David Walker's review of corporate governance relating to board and board committee matters and made appropriate recommendations to the Board. 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 2011;

- the Committee provided oversight of other matters relating to directors including considering a proposed appointment of a Director to an external body and discussing and providing guidance on FSA interactions; and
- the Committee undertook a review of its terms of reference. The effectiveness of the Committee was reviewed as part of the Board's performance evaluation.

Corporate Sustainability Committee

The role of the Corporate Sustainability Committee and its membership are set out on page 213.

Internal control

The Directors are responsible for internal control in HSBC and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures also enable HSBC Holdings to discharge its obligations under the Handbook of Rules and Guidance issued by the FSA, HSBC's lead regulator.

The key procedures that the Directors have established are designed to provide effective internal control within HSBC and accord with the Internal Control: Revised Guidance for Directors on the Combined Code on Corporate Governance issued by the Financial Reporting Council. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by HSBC have been in place throughout the year and up to

28 February 2011, the date of approval of the *Annual Report and Accounts 2010*. In the case of companies acquired during the year, the internal controls in place are being reviewed against HSBC's benchmarks and integrated into HSBC's processes.

Key internal control procedures include the following:

- authority to operate the various subsidiaries and responsibilities for financial performance against plans and for capital expenditure are delegated to their respective chief executive officers within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control appropriate to the business. The appointment of executives to the most senior positions within HSBC requires the approval of the Board;
- functional, operating, financial reporting and certain management reporting standards are established by GMO management committees, for application across the whole of HSBC. These are supplemented by operating standards set by functional and local management as required for the type of business and geographical location of each subsidiary;
- systems and procedures are in place in HSBC to identify, control and report on the major risks including credit, market, liquidity and operational risk (including accounting, tax, legal, compliance, fiduciary, information, physical security, business continuity, fraud, systems and people risk). Exposure to these risks is monitored by risk management committees, asset and liability committees and executive committees in subsidiaries and, for HSBC as a whole, by the GMB. A Risk Management Meeting of the GMB, chaired by the Group Chief Risk Officer, is held in each month (except August) to address asset, liability and risk management issues. The minutes of this meeting are submitted to the GAC, the GRC and the Board;
- the Global Operational Risk and Control Committee ('GORCC'), which reports to the Risk Management Meeting of the GMB, meets at least quarterly to monitor HSBC's operational risk profile and review the effective implementation of the Group's operational risk management framework. The GORCC receives quarterly reports on the Group's operational risk

profile, including top risks, control issues, internal and external operational loss events and key risk indicators. The GORCC communicates the lessons learned from operational events both within HSBC and in the wider industry;

- a Disclosure Committee has been established to review material public disclosures made by HSBC Holdings for any material errors, misstatements or omissions. The membership of the Disclosure Committee, which is chaired by the Group Company Secretary, includes the heads of the Finance, Legal, Risk, Compliance, Corporate Communications, Investor Relations and Internal Audit functions and representatives from the principal regions, customer groups and global businesses. The integrity of disclosures is underpinned by structures and processes within the Finance and Risk functions that support expert and rigorous analytical review of financial reporting;
- the group financial reporting process for preparing the consolidated *Annual Report and Accounts 2010* is controlled using documented accounting policies and reporting formats, supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Group Finance to all reporting entities within the Group in advance of each reporting period end. The submission of financial information from each reporting entity to Group Finance is subject to certification by the responsible financial officer, and analytical review procedures at reporting entity and Group levels;
- processes are in place to identify new risks from changes in market conditions/practices or customer behaviours, which could expose HSBC to heightened risk of loss or reputational damage. During 2010, attention was focused on refinement and operation of the stress testing framework; the roll-out of enhanced counterparty risk aggregation, risk management information, portfolio and crisis management processes; the mitigation of information risks; enhancement of policies and practices relevant to the prevention of financial crimes; and changes in the regulation of and public policy towards the financial services industry. From January 2011, risk review and audit functions have increased their focus on global thematic risks;
- periodic strategic plans are prepared for key customer groups, global product groups, support functions and certain geographies within the

framework of the Group Strategic Plan. Rolling operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that HSBC is prepared to take in executing its strategy, are prepared and adopted by all major HSBC operating companies and set out the key business initiatives and the likely financial effects of those initiatives;

- governance arrangements are in place to provide oversight of, and advice to the Board on, material risk-related matters including assurance that risk analytical models are fit for purpose, used accordingly and complemented by both model-specific and enterprise-wide stress tests that evaluate the impact of severe yet plausible events and other unusual circumstances not fully captured by quantitative models;
- centralised functional control is exercised over all IT developments and operations. Common systems are employed for similar business processes wherever practicable. Credit and market risks are measured and reported on in subsidiaries and aggregated for review of risk concentrations on a Group-wide basis;
- functional management in GMO is responsible for setting policies, procedures and standards for the following risks: credit; market; liquidity; operations; IT; fraud; business continuity; security; information; insurance; accounting; tax; legal; regulatory compliance; fiduciary; human resources; reputational; sustainability; residual value; shariah and strategic risks. Authorities to enter into credit and market risk exposures are delegated with limits to line management of Group companies. The concurrence of GMO is required, however, to credit proposals with specified higher risk characteristics;
- policies to guide subsidiary companies and management at all levels in the conduct of business to safeguard the Group's reputation are established by the Board and the GMB, subsidiary company boards, Board committees and senior management. Reputational risks can arise from environmental, social or governance issues, or as a consequence of operational risk events. As a banking group, HSBC's good reputation depends upon the way in which it conducts its business but it can also be affected by the way in which clients, to which it provides financial services, conduct their business or use financial products and services;
- the establishment and maintenance of appropriate systems of internal control is

Report of the Directors: Governance (continued)

Internal control / Going concern basis / Directors' interests

primarily the responsibility of business management. The Internal Audit function, which is centrally controlled, monitors the effectiveness of internal control structures across the whole of HSBC focusing on the areas of greatest risk to HSBC as determined by a risk-based grading approach. The head of this function reports to the Group Chairman, the Group Chief Executive, the GRC and the GAC; and

- executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit. Executive management must also confirm annually as part of the Internal Audit process that offices under their control have taken, or are in the process of taking, the appropriate actions to deal with all significant recommendations made by external auditors in management letters or by regulators following regulatory inspections.

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

The GRC and the GAC have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. The key processes used by the GRC and the GAC in carrying out their reviews include: regular business and operational risk assessments; regular reports from the heads of key risk functions including Internal Audit and Compliance; the production annually of reviews of the internal control framework applied at GMO and major operating subsidiary levels measured against HSBC benchmarks, which cover all internal controls, both financial and non-financial; semi-annual confirmations from chief executives of principal subsidiary companies as to whether there have been any material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports. The GRC and the GAC keep under review a risk map of the status of key risk areas which impact the Group and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to Group policies,

the GRC and the GAC review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

The Directors, through the GRC and the GAC, have conducted an annual review of the effectiveness of HSBC's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems and the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget. The review does not extend to joint ventures or associates. The GRC and the GAC have received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of HSBC's framework of controls.

Going concern basis

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. Further information relevant to the assessment is provided elsewhere in this Report. In particular, HSBC's principal activities, strategic direction and challenges and uncertainties are described in the Operating and Financial Review; a financial summary, including a review of the consolidated income statement and consolidated balance sheet, is provided in the Operating and Financial Review and HSBC's objectives, policies and processes for managing credit, liquidity and market risk, and its approach to capital management and allocation, are described in the Risk section.

Directors' interests

Pursuant to the requirements of the UK Listing Rules and according to the register of Directors' interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, the Directors of HSBC Holdings at 31 December 2010 had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC Holdings and its associated corporations:

Directors' interests

HSBC Holdings ordinary shares of US\$0.50

	At 31 December 2010					
	At 1 January 2010	Beneficial owner	Child under 18 or spouse	Jointly with another person	Trustee	Total interests ¹
V H C Cheng	466,165	485,493	189,072	—	—	674,565
J D Coombe	19,676	20,341	—	—	—	20,341
R A Fairhead	21,300	—	—	21,300	—	21,300
D J Flint	177,101	144,915	—	—	33,766 ²	178,681
A A Flockhart	269,008	—	—	—	230,112	230,112
S T Gulliver	2,731,057	2,553,592	177,485	—	—	2,731,077
J W J Hughes-Hallett	67,755	—	—	—	39,577 ²	39,577
W S H Laidlaw	30,948	29,532	—	—	1,416 ²	30,948
I J Mackay	34,217 ³	34,217	—	—	—	34,217
G Morgan	78,515	81,166	—	—	—	81,166
Sir Simon Robertson	140,093	8,623	—	—	167,750 ²	176,373
J L Thornton	—	—	10,250 ⁴	—	—	10,250
Sir Brian Williamson	36,378	37,607	—	—	—	37,607

1 Details of executive Directors' other interests in HSBC Holdings ordinary shares of US\$0.50 arising from the HSBC Holdings savings-related share option plans and the HSBC Share Plan are set out in the Directors' Remuneration Report on pages 232 and 233. At 31 December 2010, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in HSBC Holdings ordinary shares of US\$0.50, including interests arising through employee share plans were: V H C Cheng – 1,546,752; D J Flint – 968,179; A A Flockhart – 1,231,453; S T Gulliver – 4,349,161 and I J Mackay – 289,250. Each Director's total interests represents less than 0.02% of the shares in issue.

2 Non-beneficial.

3 Interest at 3 December 2010 – date of appointment.

4 Interest in listed American Depositary Shares, which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong.

As a director of HSBC France during 2010, S T Gulliver has an interest as beneficial owner in one share of €5 in that company (representing less than 0.01% of the shares in issue). He has waived his rights to receive dividends on this share and has undertaken to transfer it to HSBC on ceasing to be a director of HSBC France.

V H C Cheng has an interest as beneficial owner in RMB1,960,000 of retail bonds issued by HSBC Bank (China), which he held throughout the year.

No Directors held any short position as defined in the Securities and Futures Ordinance of Hong

Kong in the shares and loan capital of HSBC Holdings and its associated corporations. Save as stated above, none of the Directors had an interest in any shares or debentures of HSBC Holdings or any associated corporation at the beginning or at the end of the year, and none of the Directors or members of their immediate families were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the year. Since the end of the year, the aggregate interests of the following Directors have increased by the number of HSBC Holdings ordinary shares shown against their names:

Increase in Directors' interests since 31 December 2010

HSBC Holdings ordinary shares of US\$0.50

	Beneficial owner	Child under 18 or spouse	Trustee
V H C Cheng	10,384 ¹	1,446 ¹	—
J D Coombe	156 ¹	—	—
D J Flint	6,074 ²	—	258 ¹
A A Flockhart	7,624 ¹	—	1,759 ¹
S T Gulliver	12,376 ¹	4 ¹	—
J W J Hughes-Hallett	—	—	3,742 ³
I J Mackay	1,939 ¹	—	—
G Morgan	620 ¹	—	—
Sir Simon Robertson	65 ¹	—	—
Sir Brian Williamson	288 ¹	—	—

1 Scrip dividend.

2 Comprises scrip dividend, the automatic reinvestment of dividend income by an Individual Savings Account manager (38 shares), the acquisition of shares in the HSBC Holdings UK Share Incentive Plan through regular monthly contributions (18 shares) and the automatic reinvestment of dividend income on shares held in the plan (17 shares).

3 Non-beneficial.

Report of the Directors: Governance (continued)

Directors' interests / Employees > Disabled persons / Remuneration policy / Employee share plans

There have been no other changes in the share and loan capital interests of the Directors from 31 December 2010 to the date of this Report. Any subsequent changes up to the last practicable date before the publication of the *Notice of Annual General Meeting* will be set out in the notes to that Notice.

At 31 December 2010, Directors and Senior Management (being members of the Group Management Board) held, in aggregate, beneficial interests in 13,152,010 HSBC Holdings ordinary shares (0.07% of the issued ordinary shares).

At 31 December 2010, executive Directors and Senior Management held, in aggregate, options to subscribe for 602,019 of HSBC Holdings ordinary shares under the HSBC Holdings savings-related share option plans, HSBC Holdings Group Share Option Plan and HSBC Finance: 1996 Long-Term Executive Incentive Compensation Plan. These options are exercisable between 2011 and 2015 at prices ranging from £3.3116 to £7.9606 and US\$11.8824 to US\$18.6226 per ordinary share.

Employees

At 31 December 2010, HSBC employed 307,000 full-time and part-time employees worldwide, compared with 302,000 at 31 December 2009 and 325,000 at 31 December 2008. The main centres of employment were the UK with approximately 52,000 employees, India 34,000, Hong Kong 30,000, the US 27,000, Brazil 24,000, Mexico 20,000, mainland China 16,000 and France 11,000.

Engaged employees are an important enabler of a high-performance culture. We encourage managers to foster open and honest communication and promote active employee involvement in decision making. Employment issues and the financial and economic factors affecting HSBC's performance are regularly shared with our employees. An employee engagement target was included in the 2010 performance objectives of senior managers.

In 2010, we conducted our fourth Group-wide Global People Survey, which achieved a participation rate of 90%. The survey gives employees the opportunity to provide systematic feedback on their experience of HSBC and involvement in identifying actions to improve their experience. While employee engagement fell 3 percentage points from 71% in 2009 to 68% in 2010, this was 6 percentage points higher than the external global average and 3 percentage points above the financial services sector average.

Key themes emerging from the 2010 survey included the strength of our corporate sustainability effort; those who participate in corporate sustainability initiatives exhibit higher levels of engagement. The view that we have a diverse and fair culture has become stronger. Perceptions of organisational strategy and vision, reputation and Group Values all remain above global industry best in class. In 2011, we aim to improve personal development and strengthen relationships between employees and their direct managers by increasing employee involvement, recognising individual contribution and demonstrating specific behaviours which exemplify our Group Values.

Our approach to reward is meritocratic and market competitive, is underpinned by an ethical performance culture and aligns the interests of our employees and shareholders. See Employee share plans on page 207.

We negotiate with recognised unions. The five highest concentrations of union membership are in Argentina, Brazil, mainland China, Malta and Mexico. It is HSBC's policy to maintain well-developed communications and consultation programmes with unions and there have been no material disruptions to our operations from labour disputes during the past five years.

Our deep roots in many geographical regions and an international mindset inform our perspective on diversity: ethnicity, age and gender diversity are areas of strategic focus. We remain committed to meritocracy, which requires a diverse and inclusive culture where employees believe that their views are heard, their concerns are attended to and they work in an environment where bias, discrimination and harassment are not tolerated and where advancement is based on objectivity. Our inclusive culture helps us to respond to our increasingly diverse global customer base, while creating and retaining a secure supply of skilled and committed employees.

In 2010, we increased executive management sponsorship and responsibility for the promotion of inclusive working practices. Oversight of related activities resides with the Group Diversity Committee, supported by local People / Diversity Committees.

The role of our Group Values in daily operating practice has taken on increased significance in the context of the global financial crisis with changes to regulatory policy, investor confidence and society's view of the role of banks.

Our Group Values comprise being: open to different ideas and cultures; connected with our customers, community and each other; dependable and doing the right thing. We have strengthened our values-led culture by embedding our Group Values into the Group's operating standards, training, development and employee induction, and through the personal sponsorship of senior executives. These initiatives will continue in 2011.

The development of talented employees in both developed and emerging markets is essential to the future strength of our business. We have therefore implemented a systematic approach to identifying and deploying talented people across the organisation in order to ensure an appropriate supply of high calibre individuals with the necessary skills, diversity and experience for current and future senior management positions.

In 2010, we improved both the quality of training and the access that all employees have to relevant programmes through globally consistent technology. Specific areas covered were risk, compliance, customer orientation and performance management.

Employment of disabled persons

We believe in providing equal opportunities for all employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and, if necessary, appropriate training is provided.

Remuneration policy

As the quality and commitment of its human capital is deemed fundamental to our success, the Board's stated strategy is to attract, retain and motivate the very best people. This strategy is referenced to the overall business strategy and the commercial environment.

In a business that is based on trust and relationships, our broad policy is to recruit those who are committed to making a long-term career with the organisation since trust and relationships are built over time.

Remuneration is an important component in an individual's decision about which organisation to join and to stay with but, in our experience, it is not the overriding one. We seek to attract people who wish to work for an organisation with strong and

sound values, one which is meritocratic and competitive, and which offers challenging career development. In line with the overall principles applied to executive Directors by the Remuneration Committee described on page 222:

- employees' salaries are reviewed annually in the context of business performance, market practice and internal relativities. Allowances and benefits are largely determined by local market practice;
- employees participate in various variable pay arrangements. Discretionary variable pay is dependent on the achievement of objectives which derive from those determined at Group level. Since 2008, these objectives have typically been categorised in four segments – financial, customer, process and people. Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer recommendation, employee engagement, adherence to our ethical standards, lending guidelines and internal controls and procedures. From 2010, we have used a risk appetite framework which describes the quantum and types of risks that we are prepared to take in executing our strategy. The risk appetite framework is approved by the Board of HSBC Holdings and helps to ensure effective risk management is emphasised to maintain a strong and secure operating platform, and that influences employee remuneration. Actual levels of variable pay depend on the performance of the Group, its constituent businesses and the individual, taking into account competitive market practice and relevant regulator requirements; and
- 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, we require a proportion of variable pay awards above certain thresholds to be deferred into awards of Restricted Shares. In addition, employees are encouraged to participate in our savings-related share option plans and local share ownership arrangements.

Employee share plans

To help align the interests of employees with those of shareholders, share options are granted under all-employee share plans and discretionary awards of

Report of the Directors: Governance (continued)

Employees > Employee share plans / Subsidiary company share plans

Performance Shares and Restricted Shares are made under the HSBC Share Plan. The following are particulars of outstanding employee share options, including those held by employees working under employment contracts that are regarded as 'continuous contracts' for the purposes of the Hong Kong Employment Ordinance. The options were granted at nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services, or in excess of the individual limit for each share plan. No options were cancelled by HSBC during the period. A summary for each scheme of the total number of the options which were awarded, exercised or lapsed during 2010 is shown in the tables below. Further details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are available on our website at www.hsbc.com by selecting 'Investor Relations', then 'Share Plans', and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk or can be obtained upon request from the Group Company Secretary, 8 Canada

Square, London E14 5HQ. Particulars of options held by Directors of HSBC Holdings are set out on page 232.

All-employee share option plans

All employees employed within the Group on the first working day of the year may be granted options to acquire HSBC Holdings ordinary shares under shareholder-approved all-employee share option plans. Options under the plans are usually exercisable after one, three or five years.

The exercise of the options may be advanced to an earlier date in certain circumstances, for example on retirement, and may be extended in certain circumstances, for example on the death of a participant, the executors may exercise the option up to six months beyond the normal exercise period. The middle market closing price per HSBC Holdings ordinary share quoted on the London Stock Exchange, as derived from the Daily Official List on 20 April 2010, the day before options were awarded in 2010, was £6.917.

HSBC Holdings Savings-Related Share Option Plan

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price		Exercisable		At 1 Jan 2010	Awarded during year	Exercised during year ¹	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to					
21 Apr 2004	21 Apr 2010	3.3116	6.6870	1 Aug 2009	31 Jan 2016	76,566,328	6,183,303	4,536,734	10,475,032	67,737,865

¹ The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.57.

HSBC Holdings Savings-Related Share Option Plan: International

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price		Exercisable		At 1 Jan 2010	Awarded during year	Exercised during year ¹	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to					
21 Apr 2004	21 Apr 2010	(£)	(£)	1 Aug 2009	31 Jan 2016	29,664,282	7,585,594	5,260,044	3,328,890	28,660,942
26 Apr 2006	21 Apr 2010	(US\$)	(US\$)	1 Aug 2009	31 Jan 2016	12,073,216	2,535,387	1,418,224	2,290,964	10,899,415
26 Apr 2006	21 Apr 2010	(€)	(€)	1 Aug 2009	31 Jan 2016	3,283,710	555,803	356,578	354,427	3,128,508
26 Apr 2006	21 Apr 2010	(HK\$)	(HK\$)	1 Aug 2009	31 Jan 2016	50,938,242	5,157,129	5,258,144	3,408,335	47,428,892

¹ The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.50.

Discretionary Share Plans

Discretionary share options were awarded under employee share plans until 2005. There have been no awards of discretionary options since 30 September 2005 save for an award by HSBC InvestDirect (India) Limited before it was acquired by HSBC as

set out below. The exercise period of the options awarded under discretionary share incentive plans may be advanced to an earlier date in certain circumstances, for example on the sale of a business. Note 9 on the Financial Statements gives details on share-based payments, including awards of Restricted Shares made in 2010.

HSBC Holdings Executive Share Option Scheme¹

HSBC Holdings ordinary shares of US\$0.50

Date of award	Exercise price (£)	Exercisable		At 1 Jan 2010	Exercised during year ²	Lapsed during year	At 31 Dec 2010
		from	to				
3 Apr 2000	6.5009	3 Apr 2003	3 Apr 2010	6,706,848	4,228,503	2,478,345	–

- 1 The HSBC Holdings Executive Share Option Scheme expired on 26 May 2000. No options have been granted under the Scheme since that date.
- 2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.85.

HSBC Holdings Group Share Option Plan¹

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price (£)		Exercisable		At 1 Jan 2010	Exercised during year ²	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to				
4 Oct 2000	20 Apr 2005	6.0216	8.4024	4 Oct 2003	20 Apr 2015	157,719,485	1,015,349	3,946,021	152,758,115

- 1 The HSBC Holdings Group Share Option Plan expired on 26 May 2005. No options have been granted under the Plan since that date.
- 2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.80.

HSBC Share Plan

HSBC Holdings ordinary shares of US\$0.50

Date of award	Exercise price (£)	Exercisable		At 1 Jan 2010	Exercised during year	Lapsed during year	At 31 Dec 2010
		from	to				
30 Sep 2005	7.9911	30 Sep 2008	30 Sep 2015	86,046	–	–	86,046

Subsidiary company share plans

HSBC France and subsidiary company

When it was acquired in 2000, HSBC France and one of its subsidiary companies, HSBC Private Bank France, operated employee share option plans under

which options could be granted over their respective shares. No further options will be granted under either of these companies' plans. The following are details of outstanding options to acquire shares in HSBC France and HSBC Private Bank France.

HSBC France

Shares of €5

Date of award	Exercise price (€)	Exercisable		At 1 Jan 2010	Exercised during year	Lapsed during year	At 31 Dec 2010
		from	to				
12 Apr 2000	142.50	1 Jan 2002	12 Apr 2010	604,250	–	604,250	–

HSBC Private Bank France

Shares of €2

Dates of award		Exercise price (€)		Exercisable		At 1 Jan 2010	Exercised during year ¹	Lapsed during year	At 31 Dec 2010 ¹
from	to	from	to	from	to				
10 Mar 2000	1 Oct 2002	12.44	22.22	27 Jun 2004	1 Oct 2012	291,520	4,420	–	287,100

- 1 Following exercise of the options, the HSBC Private Bank France shares will be exchanged for HSBC Holdings ordinary shares in the ratio of 2.099984 HSBC Holdings ordinary shares for each HSBC Private Bank France share. At 31 December 2010, The CCF Employee Benefit Trust 2001 held 989,502 HSBC Holdings ordinary shares which may be exchanged for HSBC Private Bank France shares arising from the exercise of these options.

Report of the Directors: Governance (continued)**Employees > Subsidiary company share plans / Employee compensation and benefits****HSBC Finance**

Following the acquisition of HSBC Finance in 2003, all outstanding options and equity-based awards over HSBC Finance common shares were converted into rights to receive HSBC Holdings ordinary shares in the same ratio as the share exchange offer for the acquisition of HSBC Finance (2.675 HSBC Holdings ordinary shares for each HSBC Finance common share) and the exercise prices per share were adjusted accordingly. No further options will be granted under the plans.

All outstanding options and other equity-based awards over HSBC Finance common shares granted

before 14 November 2002, being the date the transaction was announced, vested on completion of the acquisition. Options granted after 14 November 2002 are exercisable on their original terms, save that they were adjusted to reflect the exchange ratio.

The following are details of options to acquire shares in HSBC Holdings.

At 31 December 2010, the HSBC (Household) Employee Benefit Trust 2003 held 2,335,315 HSBC Holdings ordinary shares and 1,455 American Depositary Shares, each of which represents five HSBC Holdings ordinary shares, which may be used to satisfy the exercise of employee share options.

HSBC Finance: 1996 Long-Term Executive Incentive Compensation Plan

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price (US\$)		Exercisable		At 1 Jan 2010	Exercised during year ¹	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to				
8 Feb 2000	20 Nov 2002	9.29	18.62	8 Feb 2001	20 Nov 2012	18,105,959	306,964	6,681,169	11,117,826

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.44.

HSBC Bank Bermuda

Following the acquisition of HSBC Bank Bermuda in 2004, all outstanding options over HSBC Bank Bermuda shares were converted into rights to receive HSBC Holdings ordinary shares based on the consideration of US\$40 for each HSBC Bank Bermuda share and the average closing price of HSBC Holdings ordinary shares, derived from the London Stock Exchange Daily Official List, for the five business days preceding the closing date of the

acquisition. No further options will be granted under any of these plans.

All outstanding options over HSBC Bank Bermuda shares vested on completion of the acquisition. The following are details of options to acquire shares in HSBC Holdings. At 31 December 2010, the HSBC (Bank of Bermuda) Employee Benefit Trust 2004 held 2,108,830 HSBC Holdings ordinary shares which may be used to satisfy the exercise of employee share options.

HSBC Bank Bermuda: Executive Share Option Plan 1997

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price (US\$)		Exercisable		At 1 Jan 2010	Exercised during year ¹	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to				
4 Feb 2000	11 Jan 2001	6.13	12.44	4 Feb 2001	11 Jan 2011	190,221	4,781	123,539	61,901

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.89.

HSBC Bank Bermuda: Share Option Plan 2000

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price (US\$)		Exercisable		At 1 Jan 2010	Exercised during year	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to				
11 Jan 2001	21 Apr 2003	9.32	15.99	11 Jan 2002	21 Apr 2013	2,250,966	—	—	2,250,966

HSBC Bank Bermuda: Directors' Share Option Plan

HSBC Holdings ordinary shares of US\$0.50

Dates of award		Exercise price (US\$)		Exercisable		At 1 Jan 2010	Exercised during year	Lapsed during year	At 31 Dec 2010
from	to	from	to	from	to				
28 Mar 2001	30 Apr 2003	10.66	13.95	28 Mar 2002	30 Apr 2013	40,515	—	14,349	26,166

HSBC InvestDirect (India) Limited

When it was acquired in 2008, HSBC InvestDirect (India) Limited, formerly IL&FS Investsmart Limited, operated an employee share option plan. Under the plan, the options vested one year from the

date of grant in equal tranches over three years. The exercise period is a maximum of seven years from the date of vesting. Following the acquisition, all outstanding options vested on 18 November 2008. No further options will be granted under this plan.

HSBC InvestDirect (India) Limited: Employee Stock Option Scheme 2006

HSBC InvestDirect (India) ordinary shares of Rs10

Date of award	Exercise price (Rs)	Exercisable		At 1 Jan 2010	Exercised during year ¹	Lapsed during year	At 31 Dec 2010
		from	to				
19 Nov 2007	180	18 Nov 2002	17 Nov 2015	873,000	873,000	—	—

¹ The weighted average closing price of the shares, as quoted on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, immediately before the dates on which options were exercised was Rs298.76 and Rs297.73 respectively for those shares exercised before trading in the shares ceased on 8 July 2010. The Company was delisted from the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited on 15 July 2010.

Employee compensation and benefits

Note 7 on the Financial Statements gives details about employee compensation and benefits including pension plans.

Set out below is information in respect of the five individuals (including two Directors of HSBC Holdings) whose emoluments were the highest in HSBC for the year ended 31 December 2010.

Emoluments of 5 highest paid employees

	£000
Basic salaries, allowances and benefits in kind	3,874
Pension contributions	807
Bonuses paid or receivable	29,339
Inducements to join paid or receivable	288
Compensation for loss of office	—
Total	34,308
Total (US\$000)	52,983

Their emoluments were within the following bands:

	Number of employees
£6,300,001 – £6,400,000	3
£6,800,001 – £6,900,000	1
£8,400,001 – £8,500,000	1

In accordance with the agreement made between the major UK banks and the UK Government on 9 February 2011 (Project Merlin), set out below is information in respect of the five highest paid senior executives (who are members of the GMB, but not Directors of HSBC Holdings plc) for the year ended 31 December 2010.

Report of the Directors: Governance (continued)

Employees > Bank payroll tax // Corporate sustainability > Governance / Risk

Emoluments of 5 highest paid senior executives

	Employee				
	1	2	3	4	5
	£000	£000	£000	£000	£000
Fixed					
Cash based	283	623	421	400	467
Total fixed	283	623	421	400	467
Variable¹					
Cash	493	393	404	406	337
Non-deferred shares ²	493	393	404	406	337
Deferred cash	740	590	605	608	505
Deferred shares	740	590	605	608	505
Total variable pay	2,467	1,967	2,018	2,028	1,683
Total remuneration	2,750	2,590	2,439	2,428	2,150
	US\$000	US\$000	US\$000	US\$000	US\$000
Total remuneration	4,247	4,000	3,767	3,750	3,320

1 Variable pay in respect of performance year 2010.

2 Vested shares, subject to a 6-month retention period.

The aggregate remuneration of Directors and Senior Management (being members of the GMB) for the year ended 31 December 2010 was US\$67,760,722.

The aggregate amount set aside or accrued to provide pension, retirement or similar benefits for Directors and Senior Management for the year ended 31 December 2010 was US\$3,348,298.

Executive Directors and members of Senior Management are generally subject to notice periods of up to 12 months and a normal retirement age of 65.

Bank payroll tax

In December 2009, the governments of the UK and France introduced one-off taxes in respect of certain bonuses payable by banks and banking groups. In both countries the tax was levied at 50% on bonuses awarded during a certain period and over a threshold amount. The taxes are liabilities of the employer and are payable on awards of both cash and shares. The amount payable and paid in respect of the relevant tax was US\$282m in the UK and US\$42m in France.

Corporate sustainability

At HSBC, we recognise that environmental, social and economic issues can affect the Group's long-term success as a business. For us, corporate sustainability means achieving sustainable profit growth so that we can continue to reward shareholders and employees, build long-lasting relationships with customers and suppliers, pay taxes

and duties in those countries where we operate, and invest in communities for future growth.

Our continuing financial success depends, in part, on our ability to identify and address certain factors which present risks or opportunities for the business. These can affect our reputation, drive employee engagement, help manage the risks of lending, leverage savings through eco-efficiency and secure new revenue streams. They generally fall into one or more of the four broad areas discussed below.

Business finance

We aim to build long-term customer relationships around the world through the provision of a consistent and high-quality service and customer experience. We use the benefits of our scale, financial strength, geographical reach and strong brand value to achieve this.

We aim to take advantage of the opportunities and manage the risks presented by emerging global trends by leading the development of sustainable business models to address them. We understand that the world is changing, with significant examples being increased longevity, a widening gap in the relative growth rates of emerging and mature economies and the need to move to a lower-carbon economy in order to mitigate some of the effects of climate change. Over the long term, we anticipate playing a leading role in shaping the market response to these challenges and we are among those financial institutions identifying how business can adapt in ways that bring both social and environmental benefits, while providing viable economic returns.

Operational environmental management

We focus our environmental initiatives primarily on addressing and responding to issues associated with climate change, including energy use, water and waste management. Climate change has the potential to materially affect our customers and, by extension, our long-term success, introducing new risks to business activity. However, it also has the potential to stimulate a new era of low carbon growth, innovation and development. In 2010, we continued to deepen our understanding of the likely effects that climate change and the responses to it will have upon our business and those of our customers. For example, the HSBC Climate Vulnerability Assessment, which maps risks for the G20 in 2020, indicates the impact of climate change on food production, water availability and health. An understanding of the scale of the issues helps the Group – and our customers – to focus on how best to respond.

Community investment

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

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

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

Employee issues

‘Employee engagement’ describes employees’ emotional and intellectual commitment to their organisation and its success and is critical to the long-term ability of the Group to deliver the highest quality of financial services. Our annual Global People Survey shows that employees value our

commitment to sustainable business practices and view us as being a leader in this regard. In 2010, 81% of colleagues said they were satisfied with the actions HSBC is taking to embed sustainability (e.g. environmental and social issues) into the way we run our business.

Sustainability governance

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

The terms of reference of the Corporate Sustainability Committee, which are reviewed annually, are available at www.hsbc.com/boardcommittees.

The members of the Committee during 2010 were N R N Murthy, a non-executive Director (appointed Chairman on 28 May 2010), V H C Cheng, an executive Director (appointed 28 May 2010), W K L Fung (retired 28 May 2010), Sir Mark Moody-Stuart (retired 28 May 2010) and G V I Davis, Lord May and Dame Mary Marsh, who are non-director members of the Committee. The Corporate Sustainability Committee held five meetings in 2010. The table on page 190 gives details of Directors’ attendance at these meetings. Following each meeting, the Committee reports to the Board on its activities.

We report on progress in developing and implementing our sustainability strategy annually in the HSBC Sustainability Report, which is independently verified and prepared using the Global Reporting Initiative. PricewaterhouseCoopers verified the Group’s commitment to carbon neutrality and adherence to the Equator Principles. The *HSBC Sustainability Report 2010* will be issued on 27 May 2011 and will be available at www.hsbc.com/sustainability.

We have a Corporate Sustainability department within the Group Management Office and in each of our major regions and countries of operation. At an operational level, implementation of our sustainability policies is managed primarily by Group Corporate Sustainability, Group Human Resources, Group Risk and Group Compliance.

Sustainability risk

Our approach to managing sustainability risk is detailed on page 173.

Report of the Directors: Governance (continued)

Corporate sustainability > Health and safety / Supplier payment // Share capital > Issued / Rights and obligations

Health and safety

The maintenance of appropriate health and safety standards remains a key responsibility of all managers and we are committed to proactively managing all health and safety risks associated with our business. Our objectives are to identify, remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

Group standards, instructions and related policies and procedures are set by Group Corporate Real Estate. Implementation in-country is coordinated through Health, Safety and Fire Co-ordinators based in each country in which we operate. They may call upon regional and Group resources by way of support at any time.

Group Security provides regular risk assessments in areas of increased risk to assist management in judging the level of terrorist threat. Regional security functions conduct regular security reviews to ensure measures to protect our staff, buildings, assets and information are appropriate for the level of threat. We remain committed to maintaining our preparedness and to ensuring the highest standards of health and safety wherever in the world we operate.

Supplier payment policy

We do not currently subscribe to any code or standard on payment practice. Our policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment.

It is our practice to organise payment to our suppliers through a central accounts payable function operated by our subsidiary, HSBC Bank. Included in the balance with HSBC Bank is the amount due to trade creditors which, at 31 December 2010, represented 27 days' average daily purchases of goods and services received from such creditors, calculated in accordance with the Companies Act 2006, as amended by Statutory Instrument 2008 No. 410.

Share capital

Issued share capital

The nominal value of our issued share capital paid up at 31 December 2010 was US\$8,843,092,451 divided into 17,686,155,902 ordinary shares of US\$0.50 each, 1,450,000 non-cumulative preference shares of US\$0.01 each and 1 non-cumulative preference share of £0.01.

The percentage of the nominal value of our total issued share capital paid up at 31 December 2010 represented by the ordinary shares of US\$0.50 each, non-cumulative preference shares of US\$0.01 each and the non-cumulative preference share of £0.01 was approximately 99.9998, 0.0002, and 0%, respectively.

Rights and obligations attaching to shares

The rights and obligations attaching to each class of shares in our share capital are set out in our Articles of Association subject to certain rights and obligations that attach to each class of preference share as determined by the Board prior to allotment of the relevant preference shares. Set out below is a summary of the rights and obligations attaching to each class of shares with respect to voting, dividends, capital and, in the case of the preference shares, redemption.

To be registered, a transfer of shares must be in relation to shares which are fully paid up and on which we have no lien and to one class of shares denominated in the same currency. The transfer must be in favour of a single transferee or no more than four joint transferees and it must be duly stamped (if required). The transfer must be delivered to our registered office or our Registrars accompanied by the certificate to which it relates or such other evidence that proves the title of the transferor.

If a shareholder or any person appearing to be interested in our shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information from any person whom we know or have reasonable cause to believe to be interested in the shares) and has failed in relation to any shares (the 'default shares') to supply the information requested within the period set out in the notice, then the member, unless the Board otherwise determines, is not entitled to be present at or to vote the default shares at any general meeting or to exercise any other right conferred by being a shareholder. If the default shares represent at least 0.25% in nominal value of the issued shares of that class, unless the Board otherwise determines, any dividend shall be withheld by the Company without interest, no election may be made for any scrip dividend alternative, and no transfer of any shares held by the member will be registered except in limited circumstances.

Ordinary shares

Subject to the Companies Act 2006 and the Articles of Association, we may, by ordinary resolution,

declare dividends to be paid to the holders of ordinary shares, though no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends as appears to the Board to be justified by the profits available for distribution. All dividends shall be apportioned and paid proportionately to the percentage of the nominal amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, it shall rank for dividend accordingly. Subject to the Articles of Association, the Board may, with the prior authority of an ordinary resolution passed by the shareholders and subject to such terms and conditions as the Board may determine, offer to any holders of ordinary shares the right to elect to receive ordinary shares of the same or a different currency, credited as fully paid, instead of cash in any currency in respect of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution. At the 2007 Annual General Meeting shareholders gave authority to the Directors to determine to offer a scrip dividend alternative until the conclusion of the Annual General Meeting in 2012.

Preference shares

There are three classes of preference shares in the share capital of HSBC Holdings, non-cumulative preference shares of US\$0.01 each (the 'Dollar Preference Shares'), non-cumulative preference shares of £0.01 each (the 'Sterling Preference Shares') and non-cumulative preference shares of €0.01 (the 'Euro Preference Shares'). The Dollar Preference Shares in issue are Series A Dollar Preference Shares and the Sterling Preference Share in issue is a Series A Sterling Preference Share. There are no Euro Preference Shares in issue.

Dollar Preference Shares

Holders of the Dollar Preference Shares are only entitled to attend and vote at general meetings if any dividend payable on the relevant preference shares in respect of such period as the Board shall determine prior to allotment thereof is not paid in full or in such other circumstances, and upon and subject to such terms, as the Board may determine prior to allotment of the relevant preference shares. In the case of the Dollar Preference Shares in issue at 28 February 2011 the relevant period determined by the Board is four consecutive dividend payment dates. Whenever holders of the Dollar Preference Shares are entitled

to vote on a resolution at a general meeting, on a show of hands every such holder who is present in person or by proxy shall have one vote and on a poll every such holder who is present in person or by proxy shall have one vote per preference share held by him or her or such number of votes per share as the Board shall determine prior to allotment of such share.

Subject to the Articles of Association, holders of the Dollar Preference Shares have the right to a non-cumulative preferential dividend at such rate, on such dates and on such other terms and conditions as may be determined by the Board prior to allotment thereof in priority to the payment of any dividend to the holders of ordinary shares and any other class of shares of HSBC Holdings in issue (other than (i) the other preference shares in issue and any other shares expressed to rank *pari passu* therewith as regards income; and (ii) any shares which by their terms rank in priority to the relevant preference shares as regards income). A dividend of US\$62.00 per annum is payable on each Dollar Preference Share in issue at 28 February 2011. The dividend is paid at the rate of US\$15.50 per quarter at the sole and absolute discretion of the Board.

A dividend will not be declared or paid on the Dollar Preference Shares if payment of the dividend would cause HSBC Holdings not to meet the applicable capital adequacy requirements of the FSA or the profit of HSBC Holdings available for distribution as dividends is not sufficient to enable HSBC Holdings to pay in full both dividends on the relevant preference shares and dividends on any other shares that are scheduled to be paid on the same date and that have an equal right to dividends. Dividends will not be declared or paid on any class of shares of HSBC Holdings ranking lower in the right to dividends than the Dollar Preference Shares nor redeem nor purchase in any manner any of its other shares ranking equal with or lower than the Dollar Preference Shares unless it has paid in full, or set aside an amount to provide for payment in full, the dividends on the Dollar Preference Shares for the then-current dividend period.

The Dollar Preference Shares carry no rights to participate in the profits or assets of HSBC Holdings other than as set out in the Articles of Association and subject to the Companies Act 2006, do not confer any right to participate in any offer or invitation by way of rights or otherwise to subscribe for additional shares in HSBC Holdings, do not confer any right of conversion and do not confer any right to participate in any issue of bonus shares or shares issued by way of capitalisation of reserves.

Report of the Directors: Governance (continued)

Share capital > Rights and obligations / During 2010 // Dividends, shareholders and meetings > Dividends for 2010

Subject to the relevant insolvency laws and the Articles of Association of HSBC Holdings, holders of the Dollar Preference Shares have the right in a winding up of HSBC Holdings to receive out of the assets of HSBC Holdings available for distribution to its shareholders, in priority to any payment to the holders of the ordinary shares and any other class of shares of HSBC Holdings in issue (other than (i) the other relevant preference shares and any other shares expressed to rank *pari passu* therewith as regards repayment of capital; and (ii) any shares which by their terms rank in priority to the relevant preference shares as regards repayment of capital), a sum equal to any unpaid dividend on the Dollar Preference Shares which is payable as a dividend in accordance with or pursuant to the Articles of Association and the amount paid up or credited as paid up on the Dollar Preference Shares together with such premium (if any) as may be determined by the Board prior to allotment thereof. In the case of the Dollar Preference Shares in issue at 28 February 2011, the premium is US\$9,999.99 per Dollar Preference Share.

The Dollar Preference Shares may be redeemed in accordance with the Articles of Association and the terms on which Dollar Preference Shares were issued and allotted. In the case of the Dollar Preference Shares in issue at 28 February 2011, HSBC Holdings may redeem such shares in whole at any time on or after 16 December 2010, subject to prior notification to the FSA.

Sterling Preference Shares

The Sterling Preference Shares carry the same rights and obligations under the Articles of Association as the Dollar Preference Shares, save in respect of certain rights and obligations that attach to Sterling Preference Shares to be determined by the Board prior to allotment of the relevant preference shares and the timing and payment of proceeds from the redemption of each class of share. The one Sterling Preference Share in issue at 28 February 2011 carries the same rights and obligations as the Dollar Preference Shares in issue at 28 February 2011 to the extent described in the section above save as follows:

1. the holder of the Sterling Preference Share is not entitled to attend or vote at general meetings;
2. the Sterling Preference Share may be redeemed in whole on any date as may be determined by the Board; and

3. the exceptions to the circumstances in which a dividend will not be declared or paid do not apply.

A dividend of £0.04 per annum is payable on the Sterling Preference Share in issue at 28 February 2011. The dividend is paid at the rate of £0.01 per quarter at the sole and absolute discretion of the Board.

Euro Preference Shares

The Euro Preference Shares carry the same rights and obligations under the Articles of Association as the Dollar Preference Shares, save in respect of certain rights and obligations that attach to Euro Preference Shares which are to be determined by the Board prior to allotment of the relevant preference shares and the timing and payment of proceeds from the redemption of each class of share.

Share capital during 2010

The following events occurred during the year in relation to the ordinary share capital of HSBC Holdings:

Scrip dividends

1. 13,135,446 ordinary shares were issued at par in January 2010 to shareholders who elected to receive new shares in lieu of the third interim dividend for 2009. The market value per share used to calculate shareholders' entitlements to new shares was US\$12.2112, being the US dollar equivalent of £7.3900.
2. 81,996,589 ordinary shares were issued at par in May 2010 to shareholders who elected to receive new shares in lieu of the fourth interim dividend for 2009. The market value per share used to calculate shareholders' entitlements to new shares was US\$10.2149, being the US dollar equivalent of £6.8154.
3. 83,004,992 ordinary shares were issued at par in July 2010 to shareholders who elected to receive new shares in lieu of the first interim dividend for 2010. The market value per share used to calculate shareholders' entitlements to new shares was US\$8.9918, being the US dollar equivalent of £6.2990.
4. 74,810,373 ordinary shares were issued at par in October 2010 to shareholders who elected to receive new shares in lieu of the second interim dividend for 2010. The market value per share used to calculate shareholders' entitlements to new shares was US\$9.8237, being the US dollar equivalent of £6.3832.

All-Employee share plans

5. In connection with the exercise of options under the HSBC Holdings savings-related share option plans: 9,796,778 ordinary shares were issued at prices ranging from £3.3116 to £6.6870 per share; 5,258,144 ordinary shares were issued at prices ranging from HK\$37,8797 to HK\$94.5057 per share; 1,418,224 ordinary shares were issued at prices ranging from US\$4.8876 to US\$12.0958 per share; and 356,578 ordinary shares were issued at prices ranging from €3.6361 to €9.5912 per share. Options over 19,857,648 ordinary shares lapsed.
6. 2,928,158 ordinary shares were issued at €6.1884 per share in connection with a Plan d'Epargne Entreprise for the benefit of non-UK resident employees of HSBC France and its subsidiaries.
7. Options over 22,017,216 ordinary shares were granted at nil consideration under the HSBC Holdings savings-related share option plans on 21 April 2010 in response to applications from approximately 44,500 applications received from HSBC employees resident in over 75 countries and territories.

Discretionary share incentive plans

8. 4,228,503 ordinary shares were issued at a price of £6.5009 per share in connection with the exercise of options under the HSBC Holdings Executive Share Option Scheme. Options over 2,478,345 ordinary shares lapsed.
9. 1,015,349 ordinary shares were issued at prices ranging from £6.0216 to £7.3244 per share in connection with the exercise of options under the HSBC Holdings Group Share Option Plan. Options over 3,946,021 ordinary shares lapsed.
10. No options were exercised under and no ordinary shares were issued in connection with the HSBC Share Plan. No options over ordinary shares lapsed.

Cancellation of Deferred Shares and issue of one Series A Sterling Preference Share

11. HSBC Holdings acquired and cancelled its 301,500 non-voting deferred shares of £1 each as part of a technical capital reorganisation necessitated by the amended EU Capital Requirements Directive 2. To facilitate the cancellation of the deferred shares and comply with the provisions of the Companies (Authorised Minimum) Regulations 2009,

HSBC Holdings issued one Sterling Preference Share of £0.01 to Tooley Street View Limited for £1.00 on 29 December 2010.

Authority to allot shares

12. At the Annual General Meeting in 2010, shareholders renewed the general authority for the Directors to allot new shares. The general authority is to allot up to 3,484,638,000 ordinary shares, 10,000,000 non-cumulative preference shares of £0.01 each, 8,550,000 non-cumulative preference shares of US\$0.01 each and 10,000,000 non-cumulative preference shares of €0.01 each. Within this, the Directors have authority to allot up to a maximum of 871,159,500 ordinary shares wholly for cash to persons other than existing shareholders.

Other than as described above, the Directors did not allot any shares during 2010.

Treasury Shares

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange on 19 December 2005, HSBC Holdings will comply with the applicable law and regulation in the UK in relation to the holding of any shares in treasury and with the conditions of the waiver in connection with any shares it may hold in treasury. No shares are currently held in treasury.

Dividends, shareholders and meetings

Dividends for 2010

First, second and third interim dividends for 2010, each of US\$0.08 per ordinary share, were paid on 7 July 2010, 6 October 2010 and 12 January 2011 respectively. Note 11 on the Financial Statements gives more information on the dividends declared in 2010. On 28 February 2011, the Directors declared a fourth interim dividend for 2010 of US\$0.12 per ordinary share in lieu of a final dividend, which will be payable on 5 May 2011 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 27 April 2011, with a scrip dividend alternative. As the fourth interim dividend for 2010 was declared after 31 December 2010 it has not been included in the balance sheet of HSBC as a debt. The reserves available for distribution at 31 December 2010 were US\$36,013m.

A quarterly dividend of US\$15.50 per 6.20% non-cumulative US Dollar Preference Share, Series A ('Series A Dollar Preference Share'), (equivalent

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to a dividend of US\$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A Dollar Preference Share), was paid on 15 March, 15 June, 15 September and 15 December 2010.

Dividends for 2011

The proposed timetable for interim dividends in respect of 2011 on the ordinary shares of US\$0.50 is set out in the Shareholder Information section on page 371.

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 8 February 2011 for payment on 15 March 2011.

Communication with shareholders

Communication with shareholders is given high priority. Extensive information about our activities is provided in the *Annual Report and Accounts*, *Annual Review* and the *Interim Report* to shareholders which are available on www.hsbc.com. There is regular dialogue with institutional investors and enquiries from individuals on matters relating to their shareholdings and our business are welcomed and are dealt with in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting or the informal meeting of shareholders held in Hong Kong to discuss our progress.

Notifiable interests in share capital

At 31 December 2010, we had received the following disclosures (which have not been subsequently amended or withdrawn) of major holdings of voting rights pursuant to the requirements of the FSA Disclosure and Transparency Rule 5:

- Legal & General Group Plc gave notice on 3 March 2010 that it had a direct interest on 2 March 2010 in 696,986,631 HSBC Holdings ordinary shares, representing 4% of the total voting rights at that date and gave notice on 9 March 2010 that on 8 March 2010 its holding of HSBC ordinary shares fell to 3.99% of the total voting rights at that date.
- BlackRock, Inc. gave notice on 9 December 2009 that it had a direct interest on 7 December 2009 in 1,143,379,437 HSBC Holdings ordinary shares, representing 6.57% of the total voting rights at that date.

As at 31 December 2010, according to the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

- JPMorgan Chase & Co. gave notice on 29 November 2010 that on 23 November 2010 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,200,117,042 ordinary shares, a short position of 71,496,203 ordinary shares and a lending pool of 826,263,258 ordinary shares, each representing 6.79%, 0.40% and 4.67% respectively of the ordinary shares in issue at that date. Since 31 December 2010, JPMorgan Chase & Co gave notice on 15 February 2011 that on 8 February 2011 it had a long position of 1,250,550,419 ordinary shares, a short position of 58,458,752 ordinary shares and a lending pool of 880,975,655 ordinary shares, each representing 7.06%, 0.33% and 4.98% respectively of the ordinary shares in issue at that date.
- BlackRock, Inc. gave notice on 2 December 2010 that on 26 November 2010 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,060,061,018 ordinary shares and a short position of 12,888,242 ordinary shares, each representing 5.99% and 0.01% respectively of the ordinary shares in issue at that date. Since 31 December 2010, Blackrock, Inc. gave notice on 21 January 2011 that on 17 January 2011 it had a long position of 1,057,501,184 ordinary shares and a short position of 11,749,901 ordinary shares, representing 5.97% and 0.07% respectively of the ordinary shares in issue at that date.

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited at least 25% of the total issued share capital has been held by the public at all times during 2010 and up to the date of this Report.

Dealings in HSBC Holdings shares

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

Annual General Meeting

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

An informal meeting of shareholders will be held at 1 Queen's Road Central, Hong Kong on Thursday 19 May 2011 at 4.30pm.

Resolutions to receive the *Annual Report and Accounts*, approve the Directors' Remuneration Report, re-elect Directors and reappoint KPMG Audit Plc as Auditor will be submitted to the Annual General Meeting. KPMG Audit Plc has expressed its willingness to continue in office and the Group Audit Committee and the Board has recommended that KPMG Audit Plc be reappointed. Resolutions will also be submitted to the Annual General Meeting to renew the authorities for the allotment of shares and the disapplication of pre-emption rights and seek approval to increase the fees payable to non-executive Directors; and approve general meetings (other than Annual General Meetings) being called on 14 days' notice.

The Remuneration Committee is consulting with major shareholders about how HSBC can continue to improve the alignment between shareholders and senior management with regard to incentivising long-term sustainable performance. If any material changes to our approach result from this consultation, a resolution will be submitted to the Annual General Meeting.

A live webcast of the Annual General Meeting will be available on www.hsbc.com. From shortly after the conclusion of the Annual General Meeting until 30 June 2011 a recording of the proceedings will be available on www.hsbc.com.

On behalf of the Board
D J Flint, *Group Chairman* 28 February 2011
HSBC Holdings plc
Registered number 617987