Report of the Group Remuneration Committee

Summary letter from the Group Remuneration Committee Chairman

Dear Shareholder

This report covers the reporting period from 1 January 2012 to 31 December 2012 and provides details of the Group Remuneration Committee ('the Committee') and remuneration policy of the Company.

This report has been prepared by the Committee with reference to the draft regulations put forward by the UK Government Department of Business, Innovation and Skills regarding the requirements for the content of a Directors' Remuneration Report. The regulations will apply to all UK companies listed on a major stock exchange with financial years ending on or after October 2013, and this report is therefore prepared using the new standards on a voluntary basis, to meet best practice in reporting.

In line with this draft legislation, the report is provided in three sections: the summary of the report, a section outlining HSBC's forward-looking remuneration policy and a section setting out remuneration outcomes for 2012. Additional disclosures as required under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and other disclosure requirements are provided at the end of the report in the appendix.

Remuneration strategy

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

HSBC's reward strategy supports this objective through balancing both short-term and sustainable performance. Our reward strategy aims to reward success, not failure, and be properly aligned with our risk framework and risk outcomes.

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

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

Structure of remuneration

In order to simplify remuneration, elements are limited to the following:

- fixed pay;
- benefits;
- annual incentive; and
- the Group Performance Share Plan.

The Group Performance Share Plan ('GPSP') was developed to incentivise senior executives to deliver sustainable long-term business performance. A key feature of the GPSP is that participants are required to hold the awards, once they have vested, until retirement, thereby enhancing the alignment of interest between the senior executives of the Group and shareholders. Further details are given on page 351.

Executive Directors, Group Managing Directors and Group General Managers participate in both performance-related plans, namely the annual incentive and the GPSP. Other employees across the Group are eligible to participate in annual incentive arrangements. Both the annual incentive and long-term incentive awards are funded from a single annual variable pay pool from which individual awards are considered. Funding of the Group's annual variable pay pool is determined in the context of Group profitability, capital strength, and shareholder returns. This approach ensures that performance related awards for any global business, global function, geography or level of staff are considered in a holistic fashion.

Overall performance summary of 2012

During 2012, management continued to execute the Board endorsed strategy to simplify, restructure and grow the Group. The Group announced 26 disposals or closures exiting non-strategic markets and selling businesses and non-core investments. The Group also recorded an additional US$2.0bn in sustainable cost savings, which takes total annualised savings to US$3.6bn. This surpasses the cumulative target of US$2.5bn to US$3.5bn on sustainable savings since 2011. A focus on positioning the business for growth delivered underlying revenue growth in most priority markets. The growth in these markets was a factor in generating a record reported profit before tax in CMB as HSBC maintained its position as the world's largest global trade finance bank, as reported in the *Oliver Wyman Global Transaction Banking Survey 2012.*

The following summarises the Group's 2012 financial performance:

- reported profit before tax fell compared with 2011, but rose on an underlying basis;
- underlying revenue grew by 7%, led by GB&M which recorded growth in the majority of its businesses, most notably in Credit and Rates, as spreads tightened and investor sentiment improved in Europe. CMB also recorded revenue growth as customer loans and advances increased in all regions, with over half of this growth coming from the faster-growing regions of Hong Kong, Rest of Asia-Pacific and Latin America, driven by higher trade-related lending. In Europe, lending balances increased, notably in the UK, despite muted demand for credit. In addition, RBWM experienced revenue growth in all faster-growing regions, in particular Hong Kong and Latin America;
- loan impairment charges and other credit risk provisions reduced significantly, notably in North America, primarily reflecting the continued decline in lending balances and lower delinquency rates in CML;
- notwithstanding the sustainable savings noted above, the cost efficiency ratio increased from 57.5% in 2011 to 62.8% in 2012 and remained outside the Group's target range. This was primarily due to fines and penalties paid as part of the settlement of the investigations into our past inadequate compliance with anti-money laundering and sanctions laws, additional provisions in respect of UK customer redress programmes and a credit in 2011 relating to defined benefit pension obligations in the UK which did not recur. The increase also reflected inflationary pressures on wages and salaries in certain of our Latin American and Asian markets, investment in strategic initiatives, including certain business expansion projects, enhanced processes and technology capabilities, and increased investment in regulatory and compliance infrastructure, primarily in the US;
- we maintained a strong balance sheet, with a ratio of customer advances to customer accounts of 74.4%;
- return on average ordinary shareholders' equity was 8.4%, down from 10.9% in 2011, primarily reflecting adverse movements in the fair value of our own debt attributable to credit spreads, a higher tax charge and higher average shareholders' equity;
- dividends in respect of 2012 to our shareholders were increased from US$0.41 per ordinary share in 2011 to US$0.45 per ordinary share; and
- core tier 1 capital increased during 2012 through capital generation and the reduction of risk-weighted assets following business disposals.

Group variable pay pool

(Unaudited)

The 2012 Group variable pay pool was considered in the context of the Group's underlying profit before tax. This calculation of profit excludes movements in the fair value of own debt attributable to credit spread and the impact of acquisitions and disposals and includes the costs of the US regulatory and law enforcement fines and penalties and other items of redress arising in 2012. For the purposes of considering the variable pay pool the normal profits from the disposed businesses up to their actual disposal are included in the calculation.

Specific actions taken in respect of 2012

- In addition to the cost of fines and penalties and redress being taken into account in the initial determination of the variable pay pool through their impact on underlying profits, a further reduction was made to the overall 2012 pool by the Committee to reflect the reputational damage incurred from the US legal and regulatory fines and penalties and to shift a higher proportion of the impact to the variable pay pool.

- Additionally, for annual incentive awards in respect of 2012 for executive Directors, Group Managing Directors and Group General Managers, the deferred element of the 2012 incentive will be deferred for an extended period of five years and will vest subject to satisfactory completion of the Deferred Prosecution Agreements and subject to the terms of the GPSP.
- The Committee has further exercised its discretion and reduced the performance outcome of the 2012 long-term scorecard. For further details see page 357.
- Clawback has been exercised by the Committee during 2012 and 2013 principally in respect of the US regulatory and law enforcement fines and penalties.

	Group		Global Banking and Markets	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Total variable pay pool	**3,689**	4,223	**1,266**	1,210
	%	%	**%**	%
Variable compensation incentive pool as a percentage of underlying pre-tax profit (pre-variable pay)[1]	**17**	18	**13**	14
Proportion of incentive that is deferred	**17**	16	**28**	27

1 *The 2012 Group pre-tax profit pre-variable pay calculation is described on page 348. The 2011 Group pre-tax profit pre-variable pay includes the add-back of restructuring costs incurred during the year, and the adjustment for movements in the fair value of own debt attributable to credit spread.*

Change in key metrics

(Unaudited)

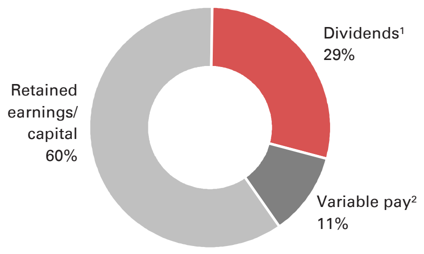
The table and charts below show the percentage change in profit, dividends and overall expenditure on staff pay.

	Underlying profit %	Dividend %	Overall expenditure on staff pay %
Change:			
2012 from 2011	**+18**	**+10**	**–3**

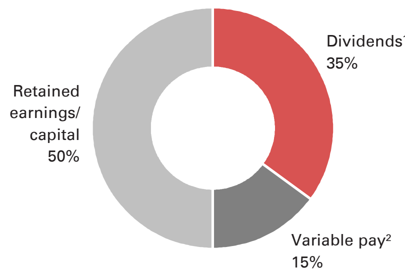
On a pro forma basis, attributable profits (excluding movements in the fair value of own debt and before variable pay distributions) are allocated in the proportions shown in the charts below.

Pro forma post-tax profits allocation

2012



2011



1 *Inclusive of dividends to holders of other equity instruments and net of scrip issuance. Dividends per ordinary share declared in respect of 2012 were US$0.45, an increase of 10% compared with 2011.*
2 *Total variable pay pool net of tax and portion to be delivered by the award of HSBC shares.*

Role, membership and activities of the Committee

Within the authority delegated by the Board, the Committee is responsible for approving the Group's remuneration policy. The Committee also determines the remuneration of Directors, senior employees, employees in positions of significant influence and employees whose activities have or could have an impact on our risk profile and, in doing so, takes into account the pay and conditions across the Group. No Directors are involved in deciding their own remuneration.

The members of the Committee during 2012 were J L Thornton (Chairman), J D Coombe, W S H Laidlaw and G Morgan (retired as a Director on 25 May 2012). R Fassbind was appointed a member of the Committee on 1 March 2013.

Directors' Remuneration Report (continued)

There were eight meetings of the Committee during 2012. The table on page 329 gives details of Directors' attendance at these meetings. The Committee has decided to not use external advisers except in exceptional circumstances. During 2012, Freshfields Bruckhaus Deringer were engaged to provide legal advice in connection with the clawback process. During the year, the Group Chief Executive provided regular briefings to the Committee and the Committee received advice from the Group Managing Director, Group Head of Human Resources and Corporate Sustainability, A Almeida, the Group Head of Performance and Reward, T Roberts and the Group Chief Risk Officer, M M Moses, all of whom provided advice as part of their executive role as employees of HSBC. The Committee also received advice and feedback from the Group Risk Committee on risk-related matters relevant to remuneration and the alignment of remuneration with risk appetite.

J L Thornton
Chairman of the Group Remuneration Committee
4 March 2013

Summary of remuneration policy

The following remuneration policy for Directors is subject to a binding shareholder vote every three years commencing with the 2013 financial year. The section on service contracts and exit payments is also subject to the binding vote and can be found on page 359.

Purpose and link to strategy	Operation and planned changes to policy	Opportunity and performance metrics
Fixed pay *Takes account of experience and personal contribution to the individual's role.*	No fixed pay increases are proposed for executive Directors in 2013.	n/a
Benefits *Takes account of local market practice.*	Benefits include the provision of medical insurance, other insurance cover, tax return preparation and travel assistance. No changes were made to HSBC's benefits policy during the year.	n/a
Annual incentive[1] *Drives and rewards performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy.*	Awards are delivered in the form of cash and shares with the structure and deferral meeting the FSA Remuneration Code requirements. The total vesting period of deferred awards will be no less than 3 years as mandated under the FSA Remuneration Code. Where the total vesting period is three years the share awards will be subject to a six month retention period upon vesting.	Maximum incentive is three times fixed pay. Performance is measured against an annual scorecard, based on a mixture of financial and non-financial measures. The scorecards vary by individual. Further detail on each scorecard for the most recent awards can be found on page 355. The policy for determining awards is set out on page 352.
Group Performance Share Plan ('GPSP')[1] *Incentivises sustainable long-term performance and alignment with shareholder interests.*	Award levels are determined by considering performance up to the date of grant against enduring performance measures set out in the long-term performance scorecard. The award is subject to a five-year vesting period during which the Committee has the authority to claw back all or part of the award. See page 353 for more details on clawback. On vesting, the shares (net of tax) must be retained until the participant retires.	Maximum award is six times fixed pay. The long-term scorecard against which performance will be assessed in 2013 is detailed below. The 2013 scorecard remains consistent with 2012. Overall performance is to be judged on performance outcomes and adherence to HSBC Values being a gating mechanism. See page 356 for further details.
Pension	No pension changes proposed for 2013.	n/a
Non-executive Director	Non-executive Directors receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives. The current fee, which was approved by shareholders in 2011, is £95,000 per annum. A fee of £45,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees: • Group Audit, Group Risk, Group Remuneration and Financial System Vulnerabilities Committees: – Chairman: £50,000 – Member: £30,000 • Nomination and Corporate Sustainability Committees: – Chairman: £40,000 – Member: £25,000	n/a

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

Directors' Remuneration Report (continued)

Summary of remuneration policy

Long-term Incentive Plan – Group Performance Share Plan 2013 long-term scorecard

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

Material factors taken into account when setting pay policy

The Committee takes into account a variety of factors when determining the remuneration policy for Directors. A summary of these factors is provided below.

Internal factors

Funding

HSBC considers pay across the Group when determining remuneration levels for its executive Directors. Eligibility for the GPSP is restricted to executive Directors, Group Managing Directors and Group General Managers. Other employees across the Group are also eligible to participate in annual incentive arrangements. Both the annual incentive and long-term incentive awards are funded from a single annual variable pay pool from which individual awards are considered.

The dilution limits set out in the HSBC share plans comply with the Association of British Insurers' guidelines. Prior to 2012, all equity-settled awards of Performance Shares and Restricted Shares vesting under the HSBC Share Plans were satisfied by the transfer of existing shares held under a trust. To create additional core tier 1 capital and retain funds within HSBC, Restricted Share vestings since 2012 have been satisfied by a mixture of existing shares from the trust and new issue shares.

External factors

Regulation

There is still a wide divergence in how regulations operate globally and this presents significant challenges to HSBC, which operates in 81 countries and territories worldwide. In order to deliver long-term sustainable performance, it is important we have market-competitive remuneration and equivalence of reward across geographical boundaries in order to attract, motivate and retain talented and committed employees around the world. We ensure our remuneration policies are aligned with both new regulatory practices and the interests of shareholders and confirm that HSBC is fully compliant with the Financial Stability Board and the FSA guidance and rules on remuneration.

Comparator group

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

Shareholder context

See page 360.

Variable pay pool determination

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

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

The Committee uses these updates when considering remuneration to ensure that return, risk and remuneration are aligned.

We use a counter-cyclical funding methodology which is categorised by both a floor and a ceiling and the payout ratio reduces as performance increases to avoid pro-cyclicality risk. The floor recognises that franchise protection is typically required irrespective of performance levels. The ceiling recognises that at higher levels of performance it is possible to limit reward as it is not necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance.

In addition, our funding methodology considers the relationship between capital, dividends and variable pay to ensure that the distribution of post-tax profits between these three elements is considered appropriate (see page 349 for the 2012 and the 2011 split). It is deemed fundamental to the Group that a majority of post-tax profit should be allocated to capital and to shareholders, particularly when a strong performance is delivered.

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

Clawback

In order to reward genuine performance and not failure, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. However, if the assessment of performance subsequently proves to be inaccurate or incorrect, then unvested deferred awards made since 2010 can be clawed back by the Committee.

Individual awards

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

Overall performance under both scorecards is judged on outcomes but, most importantly, adherence to HSBC Values as described on page 347 is a prerequisite before any individual can be considered for any variable pay. In other words, adherence with the values acts as a gating item. These values are key to the running of a sound, sustainable bank. Specifically, our most senior employees had a separate values rating for 2012 which directly influenced their overall performance rating and, accordingly, their variable pay.

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

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

We require a proportion of variable pay awards above certain thresholds to be deferred into awards of HSBC shares. This is to ensure that the Group's interests and those of its employees are aligned with those of the Group's shareholders, that the Group's approach to risk management supports the interests of all stakeholders and that remuneration is consistent with effective risk management.

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

Directors' Remuneration Report (continued)

Summary of remuneration policy / 2012 remuneration outcomes

Remuneration scenarios

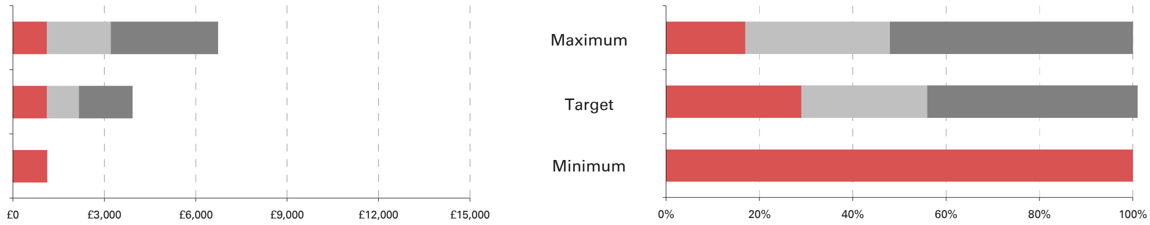
(Unaudited)

S T Gulliver

Value of package (£000) *Composition of package (%)*

I J Mackay

Value of package (£000) *Composition of package (%)*



Fixed[1] Annual incentive[2] Long-term incentive plan[3]

1 *Salary paid in the year for executive Directors, taxable benefits, pension and cash in lieu of pensions.*
2 *Maximum award level as stated in policy. Includes deferred portion of award. Target has been defined as 50% of the maximum award.*
3 *Maximum award level as stated in policy. Target has been defined as 50% of the maximum award. The GPSP scorecard has not been designed with a targeted or expected value of performance. For the purposes of the new regulations, 50% of the maximum award is deemed as target.*

The following Directors have not been included in the disclosure above: D J Flint, who has not been eligible for an annual incentive since 2011 and is not expected to be granted awards under the GPSP other than in exceptional circumstances, and A A Flockhart, who ceased to be an executive Director on 30 April 2012. Non-executive Directors are not eligible to receive incentive awards.

Summary of 2012 remuneration outcomes

Single figure of remuneration for each executive Director

(Unaudited)

	Base salary £000	Benefits[1] £000	Pension[3] £000	Annual incentive £000	Long-term incentive £000	2012 total £000	2011 total £000
Executive Directors							
D J Flint	1,500	855	–	–	–	2,355	2,348
A A Flockhart[2]	325	239	6	–	–	570	3,639
S T Gulliver	1,250	1,220	13	1,950	3,000	7,433	8,047
I J Mackay	700	421	–	1,348	1,400	3,869	3,213

1 *The emoluments table on page 361 provides further details on the benefits included.*
2 *Ceased to be an executive Director on 30 April 2012.*
3 *As disclosed on page 358.*

- **Base salary:** salary paid in year for executive Directors.
- **Benefits:** taxable benefits including cash in lieu of pension.
- **Annual incentive:** annual incentive award cash and share payments (including deferred awards) for the 2012 performance year. The outcomes of the performance conditions which determined the award are described in the next section. Forty per cent of the annual incentive in respect of the 2012 performance year is non-deferred. The non-deferred incentive is split between 50% cash and 50% payable in HSBC Holdings Restricted Shares, which are subject to a six-month retention period. 60% of the full annual incentive award is deferred equally between cash and shares and vests 100% after five years subject to the successful completion of the Deferred Prosecution Agreements and subject to the terms of the Plan.

- **Long-term incentives:** long-term incentives include all other awards where final vesting is determined as a result of the achievement of performance conditions that end in the year being reported on. For 2012 this would only include the 2013 GPSP.

The GPSP awards to be granted in 2013 in respect of 2012 were assessed against the 2012 long-term scorecard detailed on page 357. The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award. On vesting, the net of tax shares must be retained until the participant retires.

Variable pay outcomes

(Unaudited)

		S T Gulliver			I J Mackay		
	Maximum multiple	**2012 multiple awarded**	**2012 £000**	2011 £000	**2012 multiple awarded**	**2012 £000**	2011 £000
Salary[1]	1.00	**1.00**	**1,250**	1,250	**1.00**	**700**	700
Annual incentive[2]	3.00	**1.56**	**1,950**	2,156	**1.92**	**1,348**	1,086
GPSP awards[3]	6.00	**2.40**	**3,000**	3,750	**2.00**	**1,400**	700
Total			**6,200**	7,156		**3,448**	2,486

1 *As disclosed in the Directors' emoluments table on page 361.*
2 *50% of the annual incentive is delivered in cash with the remaining 50% in shares. 60% of the annual incentive for 2012 is deferred for five years. 100% vests on the fifth anniversary of grant subject to the successful completion of the Deferred Prosecution Agreements. During the vesting period the Committee has the authority to claw back part or all of the award.*
3 *As disclosed in the 2012 long-term scorecard and performance outcome on page 357. The award is subject to a five-year vesting period during which the Committee has the authority to claw back part or all of the award. On vesting, the net of tax shares must be retained until the participant retires.*

Annual incentive

Director	**Maximum face value of award**	**Performance outcome**	**Awards made**
S T Gulliver	**300%**	**52%**	**156%**
I J Mackay	**300%**	**64%**	**192%**

Determining executive Directors' performance

S T Gulliver

The annual incentive award made to S T Gulliver in respect of 2012 reflected the Committee's assessment of the extent to which he had achieved the personal and corporate objectives set for him within his performance scorecard as agreed by the Board at the beginning of the year. This measurement took into account his performance against both the financial and non-financial measures which had been set to reflect the risk appetite and strategic priorities determined by the Board to be appropriate for 2012.

In order for any award of annual incentive to be made under the above performance scorecard, the Committee firstly had to satisfy itself that S T Gulliver had personally met and shown leadership in promoting HSBC Values. This over-riding test assessed behaviour around the HSBC Values principles of being 'open, connected and dependable' and acting with 'courageous integrity'. Independent feedback was taken from direct reports and others lower in the organisation as well as from the Group Chairman. Taking this into account as well as its own experience and observation, including noting how S T Gulliver had dealt with situations where HSBC Values had not been met, the Committee concluded that S T Gulliver had exhibited strong leadership and personal behaviour in this area and so met the required standard.

In aggregate, in assessing the calibration of S T Gulliver's 2012 annual incentive against his theoretical maximum opportunity of three times base salary, an overall score of 52% (2011: 57.5%) of that maximum opportunity was judged to have been achieved. The achievement of the financial element of the scorecard was scored marginally higher than the non-financial measures. A summary of the assessment and rationale for the conclusions is set out below. Unless otherwise indicated, the figures in parentheses denote the opportunity within the scorecard.

Directors' Remuneration Report (continued)

Financial (60% weighting – achieved 32%)

The Committee continued to judge Capital Strength (10%) and Dividend Payout (10%) as critically important reflections of financial performance as they encapsulate a number of key factors of importance to shareholders. In essence these elements demonstrate a combination of profit generation, control of capital usage, cash availability at the holding company and regulatory satisfaction with the preceding factors sufficient to support HSBC's progressive dividend policy. In essence, these elements are important indicators of the sustainability of shareholder reward. Reflecting a higher dividend in 2012 and a stronger core tier 1 capital ratio, the Committee awarded full weighting of these elements of the scorecard.

An opportunity of 15% was available in respect of delivering pre-tax profit improvement (on the underlying basis described on page 348 used to assess management performance) and this was judged to have been substantially met with the Committee awarding 80% of the available opportunity (12% award). Driving this assessment were the strong performances across the faster-growing markets, particularly in Hong Kong, the turnaround in GB&M's performance in Europe, the delivery of above-target sustainable cost savings and lower loan impairment charges driven by marked improvement in the US.

Return on Equity (15%) did not meet the benchmark return. The Cost Efficiency Ratio (10%) also fell outside the required measure, in large part attributable to the significant regulatory and law enforcement fines and penalties incurred in the US and customer redress costs suffered in the UK.

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

25% of the available opportunity in this area related to Strategy Execution and 80% was judged to have been achieved (20% awarded). This strong performance reflected a combination of growing capital deployment into targeted areas of opportunity, particularly into faster-growing markets, strategic cost efficiency initiatives successfully deployed, evidence of further benefits from global business integration, progress on building wealth management revenues and personal commitment to developing client relationships.

The final opportunity under non-financial measures (15%) related to Risk and Compliance and, in light of the US regulatory and law enforcement fines and penalties and further customer redress in the UK, no award was made under this element.

The same deliberations and assessments with regard to performance and adherence to HSBC Values were undertaken by the Committee with regard to the performance of I J Mackay. This is summarised below.

I J Mackay

The performance scorecard for I J Mackay was weighted 30% financial, 70% non-financial. In aggregate, in assessing the quantum of the 2012 annual incentive against the theoretical maximum opportunity of three times base salary, an overall score of 64% of that maximum opportunity was judged to have been achieved.

The Committee considered that performance against the financial targets of Cost Disciplines and Capital and Liquidity Management had been met or were in progress.

The Committee considered that performance against the non-financial targets including People, Reporting and Planning, Maintaining a Strong Control Environment and Regulatory Change had been met or were in progress. With regard to Compliance and Reputation, in light of the US regulatory and law enforcement fines and penalties and further customer redress in the UK, no award was made under this element of the scorecard.

Awards under the GPSP

Awards to be granted in 2013 in respect of 2012 were assessed against the 2012 long-term scorecard published in the *Annual Report and Accounts 2011* and reproduced below.

The performance assessment under the 2012 long-term scorecard took into account achievements under both financial and non-financial objectives, both of which were set within the context of the risk appetite and strategic direction agreed by the Board.

Notwithstanding the detail or extent of performance delivery against the objectives, an individual's eligibility for a GPSP award requires confirmation of adherence to HSBC Values which acts in effect as a gating mechanism to GPSP participation. Within the GPSP, the weighting between financial and non-financial measures in respect of 2012 was set at 60% and 40%, respectively.

In aggregate in respect of the objectives set for 2012, and in light of the significance of the legal and regulatory fines and penalties incurred in 2012, an overall performance outcome of 40% (2011:50%) of the scorecard was judged to have been achieved; this outcome applies to all eligible participants in the

GPSP. A summary of the assessment and rationale for the conclusions is set out below. Figures in parentheses reflect the available opportunity under the GPSP.

Measure	Long-term target range	Weighting	Actual 2012 performance	Outcome
Return on equity	12% – 15%	15%	**8.4%[1]**	**0%**
Cost efficiency ratio	48% – 52%	15%	**62.8%[1]**	**0%**
Capital strength	> 10%	15%	**12.3%[1]**	**15.0%**
Dividends (payout ratio)	40% – 60%	15%	**55.4%[1]**	**15.0%**
Strategy	Judgement	20%	**Judgement**	**15.0%**
Brand equity	Top 3 rating and improve US$bn value	5%	**Top 3 rating but drop in value[2]**	**0%**
Compliance and reputation	Judgement	10%	**Not met**	**0%**
People and values	Judgement	5%	**Judgement**	**3.75%**
Performance outcome		100%		**48.75%**
Committee discretion				**40.00%**

1 *As reported in the* Annual Report and Accounts 2012.
2 *Based on results from* The Brand Finance® Banking 500 2013 *survey*.

The performance outcome of 40% was then applied to maximum face values (expressed as a percentage of salary) for each participant. The awards to be made in respect of 2012 are detailed below.

Director	Maximum face value of award	Performance outcome	Awards made
S T Gulliver	**600%**	**40%**	**240%**
I J Mackay	**500%**	**40%**	**200%**

Financial (60% weighting – achieved 30%)

The opportunity of 60% was equally split in 2012 between Capital Strength, Dividend Progression, Return on Equity and Cost Efficiency ratio.

While the annual assessment looked at point in time achievement of the same performance elements, under the long-term plan consideration was given to progress made towards stated targets where these had not been met in the short term and to the sustainability of positive short-term performance.

With regard to Capital Strength, the Committee considered favourably the steps taken to meet the Basel III targets in the accelerated timetable being required by the Group's lead regulator. In addition to achieved and planned operating profit generation, the Committee noted favourably the extensive capital generated from business disposals, both from gains realised on sale and from release of risk-weighted assets. Further support for a positive view of performance accrued from actions noted as having been taken to reduce the capital drag from legacy assets and exit portfolios and from steps being taken to mitigate the impact of the more onerous capital requirements arising from regulatory changes yet to take effect. Having reviewed these factors the Committee awarded the full opportunity (15%).

On Dividend Progression, the Committee noted favourably the capacity to maintain a progressive policy, subject to performance, reflected in the Group's capital position, its distributable reserves, its cash position and its planning assumptions. The Committee also noted external commentary on dividend paying capacity and regulatory interactions around the Group's capital position. Having considered these factors the Committee awarded the full opportunity (15%).

As noted in the assessment of the annual performance awards, the Group has not yet reached its target Return on Equity of 12-15%. The Committee deliberated on the benefits arising from the considerable restructuring and reshaping of the business which has been undertaken under the Group's Six Filters framework, the delivery of sustainable cost savings ahead of target, the growth being achieved from investment in faster-growing markets and the progress made in run-off of the exit portfolios and in reducing legacy underperforming assets. The Committee also reflected on the additional costs that would be incurred and revenues foregone from the programme of strengthening controls and compliance which is underway and from applying global standards in all markets. There was also note made of the continuing uncertainties from an incomplete regulatory reform agenda, from contingent legal risks and from the continuing significant customer redress costs from legacy activities being borne. As a consequence, the

Directors' Remuneration Report (continued)

2012 remuneration outcomes

Committee felt unable to make any award under this opportunity (15%).

Similarly, under the Cost Efficiency Ratio ('CER') element of the scorecard, despite good progress on sustainable cost savings, the CER remains well above the target range of 48-52%. The Committee noted that a major element of the underperformance relates to legal and regulatory fines and penalties and customer redress costs which it cannot view as non-recurring. As a consequence the Committee judged that no award could be made under this opportunity (15%).

Non-financial (40% weighting – achieved 18.75%)

Half the opportunity in this section related to the execution of strategic priorities laid down by the Board (20%). In assessing performance the Committee noted but looked beyond the short-term deliverables of targeted disposals and investments to review the frameworks being established to improve capital deployment, establish and enforce Global Standards, improve cost efficiency while maintaining strong operational and risk controls and enhance global business co-operation and integration. The Committee concluded that it would be an appropriate reflection of management achievement to award 75% of the available opportunity, namely 15%.

A separate but connected appraisal was made of the human aspect of long-term strategy delivery where the Committee looked at recruitment of key personnel to fill critical roles, succession planning, values training and enforcement and the retention, motivation and collegiality of the senior management team in what had been a stressed environment. Once again the Committee awarded 75% of the available opportunity of 5%, adding 3.75% to the scorecard.

With regard to Compliance and Reputation (10%), given the legal and regulatory fines and penalties incurred in 2012 and the continuation of significant further customer redress costs in the UK, the Committee concluded no award could be contemplated.

This conclusion was followed through when assessing Brand Equity (5%), which technically scored 50% of the available opportunity as HSBC maintained a top three ranking in its peer group. The Committee used its discretion to reduce this award to nil in light of the reputational damage incurred from the US legal and regulatory fines and penalties.

This performance assessment resulted in an overall score of 48.75%. Notwithstanding this, taking into account the significance of the legal and regulatory fines and penalties incurred in 2012, the Committee determined that the initial performance outcome should be reduced further to give a final performance outcome for 2012 of 40%.

Contributions and allowances in lieu of pension entitlements

D J Flint received an allowance of 50% of annual basic salary in lieu of personal pension arrangements. The allowance for 2012 amounted to £750,000.

A A Flockhart retired as an executive Director on 30 April 2012 and until that date received employer contributions of 1.8% of basic salary into a pension plan and an allowance of 48.2% of basic salary. The employer contributions and the allowance for 1 January 2012 to 30 April 2012 amounted to £162,500.

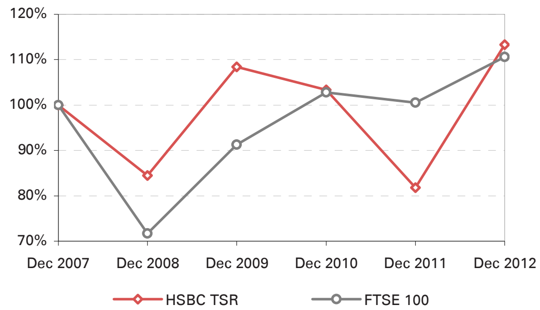
S T Gulliver received employer contributions of 4% of basic salary into a personal pension plan and an allowance of 46% of basic salary from 1 January 2012 to 31 March 2012. From 1 April 2012, S T Gulliver received an allowance of 50% of basic salary in lieu of personal pension arrangements. The employer contributions and the allowance for the whole of 2012 amounted to £625,000.

I J Mackay received an allowance of 50% of annual basic salary in lieu of personal pension arrangements. The allowance for 2012 amounted to £350,000.

TSR Chart

HSBC TSR and FTSE100 index

Pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the graph below shows the TSR performance against the FTSE 100 index for the five-year period ended 31 December 2012. The FTSE 100 index has been chosen as this is a recognised broad equity market index of which HSBC Holdings is a member.



Source: International Data Corporation

Service contracts and exit payments

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

Director	Contract date (rolling)	Notice period (Director & HSBC)	Compensation on termination by the company without notice or cause
D J Flint	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits.
A A Flockhart[1]	14 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.
S T Gulliver[2]	10 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.
I J Mackay	4 February 2011	12 months	Payment in lieu of notice equal to fixed pay, pension entitlements and other benefits. Eligible to be considered for a variable pay award upon termination of employment other than where the executive has resigned or the Company has terminated the executive's employment with the contractual right to do so.

1 *Service contract terminated on 30 April 2012 – the date of retirement as an executive Director.*
2 *The other benefits as part of the payment in lieu of notice do not include the accommodation and car provided in Hong Kong.*

Exit payments made in year

A A Flockhart retired for health reasons as an executive of the Group and from his position as Chairman of Europe, Middle East, Africa, Latin America, Commercial Banking on 30 April 2012. A A Flockhart remained on the Board up to 31 July 2012 in a non-executive Director capacity. Upon retirement on 30 April 2012, A A Flockhart received no compensation for loss of office other than contractual retirement benefits and was granted good leaver status on his unvested deferred cash and share awards as per the HSBC Share Plan rules. Subject to the terms of the Plan, the awards will vest in line with the vesting schedule at time of grant.

Share ownership guidelines

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

Under the existing guidelines, the shareholding is expected to be achieved within five years of the executive's appointment. All executive Directors exceed the expected holdings. Shareholding requirements for the Group executive Directors and Group Managing Directors are set out below. The Directors' shareholdings at 31 December 2012 are also set out below. There are no shareholding requirements for non-executive Directors.

Directors' Remuneration Report (continued)

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		At 31 December 2012 (or date of retirement)				
			Shares awarded subject to deferral			
	Shareholding requirement (number)	Shares legally owned[1]	without performance conditions[2]	with performance conditions	Total shareholding[3] (number)	Estimated value £000
Executive Directors						
D J Flint	400,000	**313,326**	**211,269**	**–**	**524,595**	**3,394**
A A Flockhart[4]	200,000	**978,077[4]**	**568,973[4]**	**–**	**1,547,050[4]**	**10,008[5]**
S T Gulliver	600,000	**2,730,477**	**2,448,515**	**–**	**5,178,992**	**33,503**
I J Mackay	200,000	**118,813**	**417,392**	**–**	**536,205**	**3,469**
Group Managing Directors[6]	125,000	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Non-executive Directors						
J D Coombe	n/a	**22,387**	**n/a**	**n/a**	**22,387**	**145**
R A Fairhead	n/a	**21,300**	**n/a**	**n/a**	**21,300**	**138**
W S H Laidlaw	n/a	**32,252**	**n/a**	**n/a**	**32,252**	**209**
J P Lipsky	n/a	**15,000[7]**	**n/a**	**n/a**	**15,000[7]**	**97[8]**
G Morgan	n/a	**84,347[9]**	**n/a**	**n/a**	**84,347[9]**	**546[10]**
Sir Simon Robertson	n/a	**9,486**	**n/a**	**n/a**	**9,486**	**61**
J L Thornton	n/a	**10,250[11]**	**n/a**	**n/a**	**10,250[11]**	**66[8]**
Sir Brian Williamson	n/a	**40,164[9]**	**n/a**	**n/a**	**40,164[9]**	**260[10]**

1 *Includes interests held as beneficial owner and interests held by connected persons and excludes interests held non-beneficially as trustee.*
2 *Includes GPSP awards which are made following an assessment of performance over the prior year but are then awarded subject to a five-year vesting period.*
3 *For the purposes of our shareholding guidelines, unvested awards of Restricted Shares and GPSP awards are included.*
4 *Interests at 31 July 2012, the date of retirement as a Director.*
5 *Estimated value at 31 July 2012, the date of retirement as a Director.*
6 *All of the Group Managing Directors except one (who was appointed a Group Managing Director during 2012 and is therefore within the five years permitted to achieve the expected holding) exceed the expected holdings.*
7 *Interest in 3,000 listed American Depositary Shares ('ADS'), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.*
8 *The ADS closing price on 31 December 2012 on the New York Stock Exchange was US$53.07.*
9 *Interests at 25 May 2012, the date of retirement as a Director.*
10 *Estimated value at 25 May 2012, the date of retirement as a Director.*
11 *Interest of spouse in 2,050 listed ADS.*

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

Shareholder context

During the year the Chairman of the Remuneration Committee met with institutional shareholders to collect their views on current and developing remuneration practices. The Group considers these meetings vital to ensure that our reward strategy continues to be aligned with the long-term interests of our shareholders.

The table below shows the advisory vote on the 2011 Directors' Remuneration Report at the May 2012 Annual General Meeting.

	Number of votes cast	For	Against	Withheld
Advisory vote on 2011 remuneration report	**8,467,146,094**	**7,603,837,582 (89.80%)**	**863,308,512 (10.20%)**	**342,947,482**

Appendix to Directors' Remuneration Report

Additional disclosures

This appendix provides disclosures required under Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and by the FSA.

The following table shows the 2012 total remuneration of the Group Chairman and executive Directors of HSBC Holdings with annual incentives disclosed on a 2012 performance year basis, pursuant to the UK Listing Rules. Explanations of the constituent parts of the incentives calculated pursuant to the UK Companies Act 2006 and the UK Listing Rules are given in footnotes 4 and 5, respectively.

Directors' remuneration
(Audited)

	D J Flint		A A Flockhart[1]		S T Gulliver		I J Mackay	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Salary, allowances and benefits in kind	**2,355**	2,348	**564**	1,578	**2,470**	2,043	**1,121**	1,427
Annual incentive[2]	**–**	–	**–**	1,926	**1,950**	2,156	**1,348**	1,086
Total remuneration	**2,355**	2,348	**564**	3,504	**4,420**	4,199	**2,469**	2,513
US$000								
Total remuneration	**3,732**[3]	3,763	**894**	5,616	**7,004**	6,729	**3,913**	4,027

Emoluments table

The following table shows the 2012 emoluments of the Group Chairman and executive Directors of HSBC Holdings, with annual incentives disclosed on an actual paid basis, pursuant to section 421 of the UK Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

Directors' emoluments
(Audited)

	D J Flint		A A Flockhart[1]		S T Gulliver		I J Mackay	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Salary	**1,500**	1,500	**325**	975	**1,250**	1,250	**700**	700
Allowances[4]	**750**	750	**207**	366	**613**	527	**350**	364
Benefits in kind[5]	**105**	98	**32**	237	**607**	266	**71**	363
Prior years deferred annual incentive now released[6]	**1,364**	1,054	**218**	857	**5,648**	3,697	**275**	12
Current year non-deferred annual incentive[7]	**–**	–	**–**	770	**780**	862	**539**	434
Total emoluments	**3,719**	3,402	**782**	3,205	**8,898**	6,602	**1,935**	1,873
US$000								
Total emoluments	**5,893**	5,452	**1,239**	5,136	**14,100**	10,581	**3,066**	3,002

1 *Retired as an executive Director on 30 April 2012.*
2 *The annual incentive for 2012 comprises the deferred and non-deferred annual incentives.*
3 *The reduction in Total Remuneration in US$ between 2012 and 2011 is due to foreign exchange movements.*
4 *Allowances include an executive allowance paid to fund personal pension arrangements.*
5 *Benefits in kind include provision of medical insurance, other insurance cover, tax return preparation and travel assistance. S T Gulliver is also provided with HSBC-owned accommodation whilst in Hong Kong. In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the taxable rental value of the property is shown for the whole period notwithstanding that it is only occupied when S T Gulliver is in Hong Kong.*
6 *Where applicable, comprise, subject to the rules of the respective share plans: (i) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares will vest on 12 March 2013 arising from the 2011 annual incentive awarded in March 2012 that was partly deferred into awards of HSBC Holdings Restricted Shares; (ii) the estimated monetary value of 33% of the award of HSBC Holdings Restricted Shares that will vest on 4 March 2013 arising from the 2010 annual incentive awarded in March 2011 that was partly deferred into awards of HSBC Holdings Restricted Shares; (iii) the estimated monetary value of the remainder of the award of HSBC Holdings Restricted Shares that will vest on 5 March 2013 arising from the 2009 annual incentive awarded in March 2010 that was fully deferred into awards of HSBC Restricted Shares; and (iv) 33% of the deferred cash award that will vest on 15 March 2013 arising from the 2010 annual incentive awarded in March 2011.*
7 *Comprises 40% of the annual incentive in respect of the 2012 performance year that is non-deferred. The non-deferred incentive is payable in HSBC Holdings Restricted Shares, 50% of which are subject to a six month retention period.*

Non-executive Directors' fees

Non-executive Directors' fees are regularly reviewed and compared with other large international companies of comparable complexity. The current fee, which was approved by shareholders in 2011, is £95,000 per annum. A fee of £45,000 per annum is payable to the senior independent non-executive Director. In addition, non-executive Directors received the following fees for service on Board Committees:

Board Committee annual fees

	Chairman £000	Member £000	Number of meetings held during 2012
Group Audit Committee	50	30	5
Group Risk Committee	50	30	7
Group Remuneration Committee	50	30	8
Financial System Vulnerabilities Committee[1]	50	30	–
Nomination Committee	40	25	4
Corporate Sustainability Committee	40	25	4

1 *Established on 18 January 2013.*

Fees paid to non-executive Directors

(Audited)

	2012 £000	2011 £000
S A Catz	95	95
L M L Cha[1]	548	465
M K T Cheung[2]	166	165
J D Coombe	205	205
J Faber[3]	104	–
R A Fairhead	200	200
A A Flockhart[4]	70	–
J W J Hughes-Hallett	138	150
W S H Laidlaw	125	125
J P Lipsky[3]	119	–
J R Lomax	155	155
G Morgan[5]	50	125
N R N Murthy[6]	135	135
Sir Simon Robertson	180	166
J L Thornton[7]	1,092	1,081
Sir Brian Williamson[5]	48	120
Total[8]	3,430	3,187
Total (US$000)[8]	5,435	5,108

1 *Includes fees as non-executive Director and Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited and a member of its nomination committee.*
2 *Includes fees as non-executive Director and member of the audit committee of Hang Seng Bank Limited.*
3 *Appointed on 1 March 2012.*
4 *A non-executive Director from 1 May to 31 July 2012. Includes fees as a non-executive Director and Chairman of HSBC Bank plc and a non-executive Director of HSBC Bank Middle East Limited from 1 May to 31 July 2012.*
5 *Retired on 25 May 2012.*
6 *Retired on 31 December 2012.*
7 *Includes fees as non-executive Chairman of HSBC North America Holdings Inc.*
8 *Total fees for 2011 and 2012 include the fees of non-executive Directors who retired in that year.*

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

- in 2013, R A Fairhead;
- in 2014, S A Catz, L M L Cha, J D Coombe, J W J Hughes-Hallett and W S H Laidlaw; and
- in 2015, M K T Cheung, J Faber, J P Lipsky, J R Lomax, Sir Simon Robertson and J L Thornton.

Subject to their re-election by shareholders, the terms of appointment of R Fassbind and J B Comey will expire in 2016.

Other directorships

Executive Directors, if so authorised by either the Nomination Committee or the Board, may accept appointments as non-executive directors of suitable companies which are not part of HSBC. Approval will not be given for an executive Director to accept a non-executive directorship of more than one FTSE 100 company nor the chairmanship of such a company. When considering a non-executive appointment, the Nomination Committee or Board will take into account the expected time commitment of such appointment. The time commitment for executive Directors' external appointments will be reviewed as part of the annual Board review. Any remuneration receivable in respect of an external appointment is normally paid to HSBC, unless otherwise approved by the Nomination Committee.

Share Plans

At 31 December 2012, the undernamed Directors held options and awards of Restricted Shares under the HSBC Share Plan and the HSBC Share Plan 2011 (including conditional awards of shares under the GPSP) to acquire the number of HSBC Holdings ordinary shares set against their respective names.

HSBC Holdings savings-related share option plans

(Audited)

HSBC Holdings ordinary shares

	Dates of award	Exercise price (£)	Exercisable from[1]	Exercisable until	**At 1 Jan 2012**	**At 31 Dec 2012 (or date of retirement)**
D J Flint	25 Apr 2007	6.1760	1 Aug 2012	31 Jan 2013	**2,650**	**2,650**
D J Flint	24 Apr 2012	4.4621	1 Aug 2015	31 Jan 2016	**–**	**2,016**
A A Flockhart	29 Apr 2009	3.3116	1 Aug 2014	31 Jan 2015	**4,529**	**–**[2]
		US$				
I J Mackay	30 Apr 2008	11.8824	1 Aug 2011	31 Jan 2012	**1,531**	**–**[3]

The HSBC Holdings savings-related share option plans are all-employee share plans under which eligible employees may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. The plans help align the interests of employees with the creation of shareholder value. The options were awarded for nil consideration and are exercisable at a 20% discount to the average market value of the ordinary shares on the five business days immediately preceding the invitation date. There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. The market value per ordinary share at 31 December 2012 was £6.47. The highest and lowest market values per ordinary share during the year were £6.55 and £4.91. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *Options lapsed on 31 October 2012 following the end of the six month period following retirement within which employees may exercise options under the HSBC Holdings savings-related share option plans. A A Flockhart retired as an employee on 30 April 2012.*
3 *Option lapsed on 31 January 2012 following the end of the exercise period.*

Directors' Remuneration Report (continued)

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Awards of Restricted Shares

HSBC Share Plan

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards held at 1 Jan 2012	Awards made during year Number	Awards made during year Monetary value £000	Awards vested during year Number	Awards vested during year Monetary value £000	Awards held at 31 Dec 2012 (or date of retirement)[1]
D J Flint	1 Mar 2010	2011-2013[2]	220,201	–	–	111,340[3]	617	116,700
	15 Mar 2011	2012-2014[2]	133,280	–	–	44,516[4]	256	94,569
A A Flockhart[5]	2 Mar 2009	2012	535,162	–	–	541,651[6]	3,028	–
	1 Mar 2010	2011-2013[2]	212,927	–	–	107,662[3]	596	110,704
	15 Mar 2011	2012-2014[2]	86,062	–	–	28,745[4]	165	59,906
S T Gulliver	1 Mar 2010	2011-2013[2]	943,723	–	–	477,174[3]	2,644	500,148
	15 Mar 2011	2012-2014[2]	825,072	–	–	275,575[4]	1,585	585,436
I J Mackay	2 Mar 2009	2012	104,244	–	–	105,508[6]	590	–
	1 Mar 2010	2011-2013[2]	41,263	–	–	20,864[3]	116	21,868
	15 Mar 2011	2012-2014[2]	35,954	–	–	12,008[4]	69	25,513

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

1 *Includes additional shares arising from scrip dividends.*
2 *33% of the award vests on each of the first and second anniversaries of the date of the award, with the balance vesting on the third anniversary of the date of the award. In the case of the awards granted on 15 March 2011 the shares (net of tax) are subject to a six month retention period following each vesting date.*
3 *At the date of vesting, 27 February 2012, the market value per share was £5.54. The market value per share on the date of the award, 1 March 2010, was £6.82.*
4 *At the date of vesting, 15 March 2012, the market value per share was £5.75. The market value per share on the date of the award, 15 March 2011, was £6.46.*
5 *Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends subject to the terms of the Plan.*
6 *At the date of vesting, 5 March 2012, the market value per share was £5.59. The market value per share on the date of the award, 2 March 2009, was £3.99.*

Awards of Restricted Shares

HSBC Share Plan 2011

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards held at 1 Jan 2012	Awards made during year Number	Awards made during year Monetary value £000	Awards vested during year Number	Awards vested during year Monetary value £000	Awards held at 31 Dec 2012 (or date of retirement)[1]
A A Flockhart[2]	28 Feb 2012[3]	2012	–	68,941	385	68,941	385	–
	12 Mar 2012[4]	2013-2015	–	207,546	1,154	–	–	213,044
	12 Mar 2012[5]	2012	–	69,182	385	69,182	385	–
S T Gulliver	28 Feb 2012[3]	2012	–	77,167	431	77,167	431	–
	12 Mar 2012[4]	2013-2015	–	232,312	1,292	–	–	243,078
	12 Mar 2012[5]	2012	–	77,437	431	77,437	431	–
I J Mackay	28 Feb 2012[3]	2012	–	38,854	217	38,854	217	–
	12 Mar 2012[4]	2013-2015	–	116,968	650	–	–	122,390
	12 Mar 2012[5]	2012	–	38,989	217	38,989	217	–

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The vesting date may be advanced to an earlier date in certain circumstances, for example, death. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of a beneficial owner.

1 *Includes additional shares arising from scrip dividends.*
2 *Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends subject to the terms of the plan.*
3 *The non-deferred award vested immediately on 28 February 2012. At the date of vesting the market value per share was £5.59.*
4 *At the date of the award, 12 March 2012, the market value per share was £5.56. 50% of these deferred awards are subject to a six month retention period upon vesting. 33% of the awards vest on each of the first and second anniversaries of the date of the awards, with the balance vesting on the third anniversary of the date of the award.*
5 *The non-deferred award vested immediately on 12 March 2012 and the shares (net of tax) were subject to a six month retention period. At the date of vesting, the market value per share was £5.56.*

Conditional Awards under the GPSP

HSBC Share Plan 2011

(Audited)

HSBC Holdings ordinary shares

	Date of award	Year in which awards may vest	Awards held at 1 Jan 2012	Awards made during year[1] Number	Awards made during year[1] Monetary value £000	Awards held at 31 Dec 2012 (or date of retirement)[2]
A A Flockhart[3]	23 Jun 2011	2016	**178,373**	–	–	**185,319**
S T Gulliver	23 Jun 2011	2016	**392,119**	–	–	**415,270**
	12 Mar 2012	2017	–	**673,370**	**3,744**	**704,583**
I J Mackay	23 Jun 2011	2016	**109,626**	–	–	**116,099**
	12 Mar 2012	2017	–	**125,695**	**699**	**131,522**

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

1 *At the date of award, 12 March 2012, the market value per share was £5.56.*
2 *Includes additional shares arising from scrip dividends.*
3 *Retired as an executive Director on 30 April 2012. The vesting of the awards will continue in line with the vesting schedule set at the date of grant and will also continue to accrue scrip dividends.*

Pensions

Defined Benefit Pension arrangements

(Audited)

	Accrued annual pension at 31 December 2012 £000	Increase in accrued pension during 2012 £000	Increase in accrued pension during 2012, excluding any increase for inflation £000	Transfer value of accrued pension at 31 December 2011[1] £000	Transfer value of accrued pension at 31 December 2012[1] £000	Increase of transfer value of accrued pension (less personal contributions) in 2012[1] £000	Transfer value (less personal contributions) at 31 December 2012 relating to increase in accrued pension during 2012, excluding any increase for inflation[1] £000
A A Flockhart[2]	**339**	**32**	**15**	5,638	**6,105**	**467**	**251**

1 *The transfer value represents a liability of HSBC's pension fund (the International Staff Retirement Benefits Scheme ('ISRBS')) and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.*
2 *A A Flockhart ceased accrual of pension in the ISRBS on 30 November 2008 and he has deferred commencement of his pension. The ISRBS retains a liability for a contingent spouse's pension of £140,000 per annum as at 31 December 2012. Although A A Flockhart retired as an executive Director on 30 April 2012, this does not affect his benefits within the ISRBS.*

The following table shows unfunded pension payments, in respect of which provision has been made, during 2012 to six former Directors of HSBC Holdings.

The payments in respect of R Delbridge and Sir Brian Pearse were made by HSBC Bank plc as former directors of that bank. The payment in respect of C F W de Croisset was made by HSBC France as a former director of that bank.

Directors' Remuneration Report (continued)

Unfunded pension payments

(Audited)

	2012 £	2011 £
B H Asher	**111,763**	106,441
C F W de Croisset	**239,423**	250,910
R Delbridge	**160,754**	153,099
Lord Green	**42,174**	40,946
Sir Brian Pearse	**67,036**	63,844
Sir William Purves	**118,313**	112,679
	739,463	727,919

Employee compensation and benefits

(Unaudited)

Set out below are details of emoluments paid to senior management (being executive Directors and Group Managing Directors of HSBC Holdings) for the year ended 31 December 2012 or for the period of appointment as a Director or Group Managing Director.

Emoluments of senior management

	Senior management £000
Basic salaries, allowances and benefits in kind	**15,461**
Pension contributions	**315**
Performance-related pay paid or receivable	**33,066**
Inducements to join paid or receivable	**–**
Compensation for loss of office	**715**
Total	**49,557**
Total (US$000)	**78,531**

The aggregate emoluments of senior management for the year ended 31 December 2012 was US$78,531,390. The emoluments of senior management were within the following bands:

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

The aggregate amount set aside or accrued to provide pension, retirement or similar benefits for executive Directors and senior management for the year ended 31 December 2012 was US$499,285.

Set out below are details of remuneration paid to the five individuals whose emoluments were the highest in HSBC (including two executive Directors and two Group Managing Directors of HSBC Holdings), for the year ended 31 December 2012.

Emoluments of the five highest paid employees

	5 highest paid employees £000
Basic salaries, allowances and benefits in kind	**6,112**
Pension contributions	**155**
Performance-related pay paid or receivable	**21,513**
Inducements to join paid or receivable	**–**
Compensation for loss of office	**–**
Total	**27,780**
Total (US$000)	**44,022**

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

	Number of 5 highest paid employees
£3,800,001 – £3,900,000	1
£4,600,001 – £4,700,000	1
£4,800,001 – £4,900,000	1
£7,000,001 – £7,100,000	1
£7,400,001 – £7,500,000	1

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

	Employee							
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed								
Cash based	650	632	650	650	650	650	851	488
Total fixed	650	632	650	650	650	650	851	488
Annual incentive[1]								
Cash	955	331	262	340	277	272	227	180
Non-deferred shares[2]	955	331	262	340	277	272	227	180
Deferred cash[3]	1,433	496	393	510	415	407	341	270
Deferred shares[3]	1,433	496	393	510	415	407	341	270
Total annual incentive	4,776	1,654	1,310	1,700	1,384	1,358	1,136	900
Long-term incentive plan (GPSP)								
Deferred shares	1,560	1,517	1,560	1,040	780	780	681	976
Total variable pay	6,336	3,171	2,870	2,740	2,164	2,138	1,817	1,876
Total remuneration	6,986	3,803	3,520	3,390	2,814	2,788	2,668	2,364
US$000								
Total remuneration	11,070	6,026	5,578	5,372	4,459	4,418	4,228	3,746

1 *Annual incentive in respect of performance year 2012.*
2 *Awards vested, subject to a six month retention period.*
3 *Awards vest 100% after five years subject to the successful completion of the Deferred Prosecution Agreements and subject to the terms of the Plan.*