

ANNUAL GENERAL MEETING – 28 MAY 2010

What are the overall principles of the Group's remuneration policy?

The Remuneration Committee is responsible for approving the remuneration policy of HSBC and in doing so takes into account the pay and conditions across the Group. This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on HSBC's risk profile. No Directors are involved in deciding their own remuneration.

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

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

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

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

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

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

Why did you consider it acceptable to increase the executive Directors' pay in 2010?

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

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

No increases in salaries were made in 2008 or 2009 other than to reflect promotions to the Board. In September 2009, HSBC announced that the Group Chief Executive, M F Geoghegan, would assume responsibility for the Group's strategy. In addition, to underscore that the Group's strategy of focusing on emerging markets was most effectively achieved in Asia, HSBC's largest emerging market, it was announced that the principal office of the Group Chief Executive would be moved to Hong Kong and, on 1 February 2010, M F Geoghegan succeeded V H C Cheng as Chairman of The Hongkong and Shanghai Banking Corporation Limited. These changes have now taken place and M F Geoghegan is now based in Hong Kong.

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

The changes affecting the executive Directors are set out below.

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

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

S T Gulliver was appointed Chairman, Europe, Middle East and Global Businesses. In this capacity, he has assumed overall responsibility for all HSBC's businesses across Europe, the Middle East and Global Private Banking and continues to oversee the Global Banking and Markets business. S T Gulliver has become Chairman of HSBC Bank Middle East Limited. He continues to be based in London.

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

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

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

No other salary increases are proposed for executive Directors.

What is the justification for the annual bonus awards made to executive Directors in respect of 2009?

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

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

Awards for executive Directors with responsibilities for Asia reflect robust performance underpinned by a market-leading share in deposits, residential mortgages, cards and insurance, within a challenging environment. In Hong Kong, HSBC reported a decline in pre-tax profit of 8 per cent on an underlying basis due to lower revenue from compressed deposit spreads, partly offset by a reduced level of loan impairment charges and credit risk provisions. Overall, customer lending balances were flat, as higher lending in Personal Financial Services and Global Banking and Markets was broadly offset by a decline in Commercial Banking, reflecting weakened demand for exports. In the Rest of Asia-Pacific region, HSBC reported an 8 per cent decline in pre-tax profit on an underlying basis, reflecting the difficult economic conditions; this masked, however, a strong contribution from HSBC's associates in the region, notably in mainland China.

The awards made to executive Directors and seven Group Managing Directors in respect of 2009 performance will be fully deferred. All executive Directors' awards will be fully deferred into awards of Restricted Shares issued under the HSBC Share Plan. With the exception of the award for V H C Cheng, 33 per cent of the executive Directors' awards will vest on each of the first and second anniversaries of the date of the award, with the balance vesting on the third anniversary of the date of the award. The award for V H C Cheng has a vesting date three years from the date of the award.

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

Why is Mike Geoghegan receiving a £300,000 allowance per annum for re-locating to Hong Kong?

The Board requested that the Group Chief Executive move to Hong Kong to be located in the Group's strategically most important region. This is considered to be in the best interests of HSBC in order to focus on ensuring its growth potential is fully realised. The allowance is payable to Mr Geoghegan in recognition of the relocation to Hong Kong and the associated costs of living that will be incurred. The allowance reflects his individual circumstances and is not a permanent component of the remuneration package for the Group Chief Executive's role. It will be paid for the duration of Mr Geoghegan's time in Hong Kong. The allowance is not pensionable and it is not considered as part of salary in determining the maximum annual bonus and Performance Share Awards.

What are the performance measures for the long-term incentive awards of Performance Shares under the HSBC Share Plan and what is the average actual vesting of awards over recent years?

The vesting of awards of Performance Shares under the HSBC Share Plan is based on three independent performance measures and an overriding 'sustained improvement' judgement by the Remuneration Committee. The three Group measures are relative Total Shareholder Return (TSR) (40 per cent of the award); economic profit (40 per cent); and growth in earnings per share (EPS) (20 per cent). These measures provide a basis on which to measure HSBC's relative and absolute performance over the long-term taking into account an external measure of value creation, a measure of the extent to which the return on capital invested in HSBC is in excess of a benchmark return and a direct measure of the profits generated for shareholders. Awards will not vest unless the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the award date. In determining whether HSBC Holdings has achieved such sustained improvement the Remuneration Committee will take account of all relevant factors, in particular, comparisons against the TSR comparator group in areas such as revenue growth and mix, cost efficiency, credit performance, cash return on cash invested, dividends and TSR. The performance conditions are measured over a three year performance period and awards forfeited to the extent that they have not been met.

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

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The average actual vesting of Performance Share awards made in 2004, 2005, 2006 and 2007 (which were tested in 2007, 2008, 2009 and 2010 respectively) has been 27 per cent of their face value. The awards made in 2006 and 2007 did not satisfy the EPS condition but did satisfy the TSR condition and accordingly, 39.5 per cent of the TSR element of the 2006 award (19.75 per cent of the overall 2006 award) vested and 75.6 per cent of the TSR element of the 2007 award (37.8 per cent of the overall 2007 award) vested.

What is the Group's strategy in the USA?

In 2008, the Group took the difficult decision to, with the exception of credit cards, write no further consumer finance business through the HFC and Beneficial Brands in the USA and close the majority of the network. We have drawn a line in terms of new business and we are running off our existing business, providing all necessary support to HSBC Finance.

The USA remains the world's biggest economy and HSBC remains committed to the USA. HSBC Bank in the USA is not affected by the restructure. We are focussing on those businesses and customers for whom our global connectivity gives us advantage – primarily in corporate and commercial business, and in Private and Premier banking. In 2009 we grew deposits in both Commercial Banking and in Personal Financial Services, selling US\$4.5 billion of prime mortgages, and increased the number of Premier customers by 37 per cent.

What progress has been made in closing down the US Consumer Finance Business?

In 2009 we completed the closure of all consumer lending branches and the associated restructuring costs of US\$150 million were significantly lower than expectations. We continued to make encouraging progress in managing down the run-off business. The run-off portfolio has reduced by over US\$50 billion since the first quarter of 2007 to US\$73.3 billion. We have also announced the sale of our US vehicle loan servicing operations and US\$1 billion in vehicle loans, representing further progress in our run-off strategy.

How much has the Household acquisition cost HSBC?

The Group has made \$127.6 billion of profit before tax (excluding goodwill) since acquiring Household Finance Corporation (HFC) in 2003. HFC has been nominally profitable in aggregate (excluding goodwill) during this period. The total acquisition costs were US\$16.4 billion and we have injected capital totalling US\$8.5 billion. Dividends of US\$5.4 billion have been received to December 2009.

The eventual cost to HSBC will be heavily influenced by the USA economy and it is unwise to forecast the total cost at this stage. The action taken by this management team to date has resulted in the operations in the USA being profitable for the first time since the second half of 2007 but it is too early to predict the issue has been addressed.

Does HSBC donate to charity and how does HSBC give back to communities and those in need?

In 2009, HSBC donated a total of US\$100 million to community investment projects. The Group was ranked 6th in 2009 by Caritas Data Top Corporate Donors. HSBC broadly aims to dedicate half of its philanthropic donations to educational causes, a quarter to the environment, and the remainder to local causes. We focus on education and the environment because we believe these are fundamental to building and developing communities. In 2009 HSBC staff volunteered 285,332 hours in company time.

HSBC's flagship global education programme, Future First, is a five-year commitment to helping disadvantaged children around the world. We work in partnership with the charity SOS Children's Villages, providing access to education and life skills training to equip them for the future. Since the programme's launch in 2006, HSBC has helped to support over 200 projects across 45 countries, benefiting more than 200,000 children.

We support financial education and business literacy through JA More Than Money™. In the last academic year, 1,500 HSBC employee volunteers taught financial skills to over 46,000 children across 14 countries. JA (Junior Achievement) is one of the world's largest organisations dedicated to educating students about workforce readiness, entrepreneurship and financial literacy.

In 2009, we launched the HSBC Eco-Schools Climate Initiative in partnership with the Foundation for Environmental Education. This three-year project aims to inform and inspire 1.2 million young people aged five to 18 to take action on climate change, by improving their schools' environmental efficiency. HSBC employees in 10 countries worldwide will take part.

Through the HSBC Climate Partnership, HSBC's flagship environmental programme, we have committed USD100m to four leading global organisations (The Climate Group, Earthwatch, Smithsonian Tropical Research Institute and WWF) over five years on researching and tackling climate change. As well as the monetary support we run programmes to enable our staff to support this initiative, and nearly 1,000 colleagues have now conducted field research, helping to contribute to the body of scientific

knowledge about climate change. In 2009, as part of this project, two new climate centres were opened in India and China, and the Carbon Reduction Campaign was launched in the Hong Kong SAR, which promotes a low-carbon lifestyle to employees. Clean-up work continued on the Yangtze River in China to create a network of protected areas to provide resilience to the impacts of climate change.

What are you doing to support microfinance?

We work with a number of large microfinance organisations to support their funding and development programmes, and also work directly with microfinance providers in a number of countries. Our largest engagement in microfinance is in India where we are working with 10 micro-finance partners, currently lending around US\$75 million to 300,000 borrowers in 11 states.

How does HSBC manage risk in lending and other financial services?

HSBC has sector policies to provide guidance on managing the potential environmental and social impacts of our business customers. These policies are applied regardless of the value of the transaction or size of the business. We have five sustainability risk policies relating to “sensitive” sectors: forest land and forest products; mining and metals; chemicals; freshwater infrastructure; and energy. HSBC has also adopted the Equator Principles, a framework for managing the impacts of large projects. The policies deal with issues such as illegal logging, human rights, biodiversity and climate change. The forestry policy addresses the risks associated with the palm oil sector by prohibiting the financing of new plantations on land obtained by cutting down high conservation value forest. The energy sector policy is being reviewed to address some of the key energy and climate change dilemmas we face. We plan to include guidance on carbon-intensive activities, such as coal-fired power stations and oil sands, as well as nuclear power. The revised policy will be issued later this year.

We also have a defence equipment policy which clarifies our approach to companies involved with weapons. The policy was updated in 2009 and expressly prohibits the provisions of financial services to customers who solely or primarily manufacture or sell weapons. It specifically prohibits working with customers who sell or manufacture anti-personnel mines or cluster bombs. Where a customer is outside the policy and we are contractually committed to a loan which predates this policy, we exit the relationship at the earliest opportunity. The defence equipment policy applies to our financial services but excludes investment management activities where we act on behalf of our wider customer base. We do not believe that the provision of services like these to our customers gives us the authority to tell them what to buy or sell. Customers are free to make their own investment choices.

Summaries of all these policies can be viewed at <http://www.hsbc.com/1/2/sustainability/sustainable-finance>.