

Corporate governance seminar

London

Tuesday, 12 March 2019



Agenda

		Start	Duration	
1.	Welcome	Chairman	10:30	5 mins
2.	The role and evolution of the Board	Chairman	10:35	15 mins
3.	Group Nomination & Corporate Governance Committee	Chairman	10:50	10 mins
4.	Group Audit Committee	Jon Symonds	11:00	15 mins
5.	Group Risk Committee	Jack Tai	11:15	15 mins
6.	Financial System Vulnerabilities Committee	Jack Tai	11.30	5 mins
7.	Group Remuneration Committee	Pauline van der Meer Mohr	11:35	15 mins
8.	Questions & Answers	Chairman	11.50	25 mins
	Buffet lunch		12:15	30 mins
	Meeting close		12.45	

1. Welcome



2. The role and evolution of the Board

Overview

- ◆ October 2017 – Mark Tucker appointed as non-executive Group Chairman
- ◆ February 2018 – John Flint appointed as Group Chief Executive

- ◆ Roles of Group Chairman and Group Chief Executive
 - There is a clear division of responsibilities between the Group Chairman and the Group Chief Executive
 - The Group Chairman is responsible for the leadership of the Board and is accountable to shareholders
 - The Group Chief Executive leads the executive and is accountable to the Board for HSBC's business and financial performance

- ◆ Role of Deputy Group Chairman

- ◆ Role of the Board
 - Promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate
 - Set the Group's strategy and risk appetite, approve capital and operating plans for achieving strategic objectives on the recommendation of management
 - Exercise constructive challenge and hold management to account for performance

Improving governance

Under new leadership, the Board is reviewing and improving governance across the Group. This has included:

1. Streamlining the Board and its committees
2. Designing and implementing a Subsidiary Accountability Framework

...this has allowed the Board to become more forward-looking and to have a much sharper focus on:

- ◆ Top level executive succession planning, recently including Group CEO; Group CFO and top 20 roles
- ◆ The development and approval of Group strategy, monitoring performance against strategic priorities
- ◆ Deep dives on strategic issues, including technology, supported by a Technology Advisory Board
- ◆ Enhanced, simplified and more effective governance

An **independent review** of the Board and its committees is being undertaken in early 2019 to provide assurance over the progress made to date and identify areas where we can improve

1. Streamlining the Board and its committees

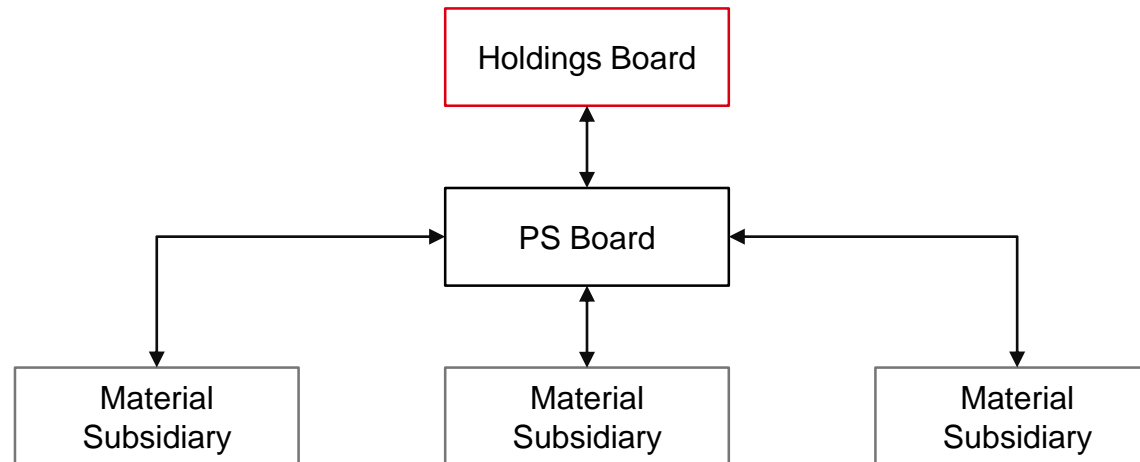
Including...

- ◆ Number of directors on the Board has been reduced from 17 to 15, and will be 14 following the 2019 AGM
- ◆ Board committee composition has been restructured
- ◆ Number of Board committees has been reduced from 7 to 5
- ◆ Standard operating agenda for each Board and committee meeting cycle has been reduced from 3 days to 2, allowing more time for strategic discussion, with deep dives on strategic issues
- ◆ Executive reporting streamlined - focus on holding management to account for **performance and delivery of strategy**

A new **Governance Framework** describing the core elements of HSBC's corporate governance has been published and is available on www.hsbc.com/our-approach/corporate-governance

2. Subsidiary Accountability Framework

We have introduced a Subsidiary Accountability Framework to organise the corporate governance responsibilities of the Board and the Principal Subsidiaries:



Holdings Board:

- ◆ Has **ultimate regulatory responsibility for the Group as a whole**
- ◆ Sets the Group's strategy, plans and policies
- ◆ Approves key appointments and oversees succession planning
- ◆ Sets a holistic, consistent and integrated global governance framework for the HSBC Group

Principal Subsidiary boards:

- ◆ 8 Principal Subsidiaries, each with a regional focus
- ◆ Responsible for oversight of decisions of significance in the material subsidiaries
- ◆ Establish strategy, plans and policies for their legal entities, in line with those set for the Group by the Holdings Board
- ◆ Act as information conduit between the Holdings Board, themselves and their material subsidiaries

3. Group Nomination & Corporate Governance Committee

Role of the Committee

- ◆ Leads the Board appointment process, agreeing criteria for appointments and engaging external search consultants
- ◆ Regularly reviews the Board's size, structure and composition, including skills, knowledge, independence and diversity, to ensure that they are aligned with the Group's strategic priorities
- ◆ Determines membership of Board committees, approves appointments to a number of the Group's most significant operating subsidiary boards
- ◆ Gives full consideration to succession planning for senior executives
- ◆ Remit expanded in 2018 to include overseeing and monitoring the Group's corporate governance framework, including:
 - Recommendations to the Board to ensure the corporate governance framework remains robust and reflects best practice
 - Monitoring compliance with corporate governance codes and recommending the applicable disclosures
- ◆ Committee was renamed to reflect its broader corporate governance remit

Composition

Non-executive directors

5 meetings held in 2018

Key areas of focus in 2018

Succession planning

- ◆ Oversaw succession planning for the top 20 roles across the Group, including the succession pools for those roles, plus development plans for individuals in the pools
- ◆ Enhanced executive team ownership of succession pools and development was overseen, with tighter linkage between capability requirements and strategic planning
- ◆ Recruitment process for the new Group CFO was led by the Group CEO. A sub-committee comprising members of the Committee and senior members of management discussed a shortlist and ultimately formalised a recommendation to the Board
- ◆ In June, Ewen Stevenson was announced as the new Group CFO from 1 January 2019

Diversity and inclusion

- ◆ Updated policy was released
- ◆ Key focus to ensure that Directors are from a range of backgrounds, and whose ethnicity, experience, age, geographical provenance and gender more closely reflect the diversity of our customers
- ◆ Board has committed itself to meeting diversity targets (which it meets currently, with 36% female and three directors from an ethnic minority background)

4. Group Audit Committee

Role of the Committee

- ◆ Oversees all matters relating to external financial reporting, including analyst presentations and Pillar 3 disclosures
- ◆ Ensures the effectiveness of internal financial control
- ◆ Ensures the independence and performance of Internal Audit and the relationship with the external auditors, including their independence, performance of proposed services outside the scope of the Group audit
- ◆ Oversees whistleblowing
- ◆ Has strong links with the audit committees of the Principal Subsidiaries and regular interaction with the Group Risk Committee (GRC), which is reinforced by regular, regional Audit & Risk Committee Chairs (ARCC) fora

Composition

Jon Symonds (5 years)

Kathleen Casey (5 years)

David Nish (3 years)

Jack Tai (2.5 years)

13 meetings held in 2018

Key areas of focus in 2018

- ◆ Reviewing the internal control framework, in particular the upgrade of entity level controls
- ◆ IFRS 9 implementation, with a particular focus on the forward-looking projections required
- ◆ Consideration of the Group recovery plan and its integration with the Group's risk management framework
- ◆ Assumptions underpinning the valuation of Bank of Communications Co
- ◆ Establishment of the ring-fenced bank
- ◆ Whistleblowing
- ◆ Engagement with the Competition & Markets Authority and the Kingman Independent Review of the Financial Reporting Council

Audit & Risk Committee Chairs fora

Interaction between the GAC and GRC with the committees of the Principal Subsidiaries is reinforced through the ARCC

- ◆ Asia-Pacific - in Hong Kong in May 2018
- ◆ Americas (US, Canada, Latin America) - in Mexico City in September 2018
- ◆ EMEA (Europe, Middle East North Africa & Turkey) – in London in November 2018

Purpose of these smaller and more intimate two day fora was to:

- ◆ Provide us with a stronger opportunity to interact with Audit and Risk Committee chairs and other attendees
- ◆ Engage in discussions that were more specifically relevant to the audience's local and regional challenges
- ◆ Encourage (i) stronger connectivity and (ii) flow of insight and learnings among the participants themselves
- ◆ Share governance best practices; promote self assessment
- ◆ Disseminate subject matter knowledge, training (including on Non Financial Risks, Data, Information Security, People Risks and Conduct)
- ◆ Engage in constructive discussion, challenge

5. Group Risk Committee

Role of the Committee

- ◆ Responsible for oversight of enterprise risk management, risk governance and internal control systems (other than financial controls overseen by the GAC)
- ◆ Reviews Group risk profile at each meeting to identify key issues and common themes in the enterprise risk reports, the risk appetite statement, and top and emerging risks
- ◆ Convenes first, second and third lines of defence to conduct thematic reviews on forward-looking strategic matters and key topical risks
- ◆ Supported by Financial System Vulnerabilities Committee (FSVC) in the oversight of financial crime and remediation of regulatory matters requiring attention
- ◆ Assumed responsibility during 2018 for oversight of information and cyber security risks (from the FSVC) and conduct and culture issues (from the former Conduct & Values Committee)
- ◆ Works closely with the GAC to ensure coordinated governance and coverage of forward-looking issues. There is cross-membership between the GRC and GAC

Composition

Jack Tai (2.5 years)

Jon Symonds (5 years)

Heidi Miller (4.5 years)

Pauline van der Meer Mohr (3.5 years)

Andy France, adviser to GRC (since July 2018)

11 meetings held in 2018

Key areas of focus in 2018

- ◆ Reviewed and challenged:
 - Group's progress in improving information and cyber security risks and overall operational resilience
 - Group's regulatory submissions on liquidity and capital management
 - Group's annual stress testing exercises, including first line business implications
- ◆ Thematic reviews (with first, second and third lines of defence) on non-financial risks, credit risk management, model risk management, and people risk and conduct
- ◆ Annual review of Group risk appetite statement
- ◆ Reinforced connectivity between Group Risk Committee and subsidiary risk committees

6. Financial System Vulnerabilities Committee

Role of the Committee

- ◆ FSVC responsible for oversight of Group's financial crime and system abuse, including
 - Anti-money laundering
 - Sanctions
 - Terrorist financing
 - Anti-bribery and corruption
 - Advising Board on policies and procedures to ensure Group meets its regulatory obligations in remediating financial crime issues

Key areas of focus in 2018:

- ◆ Monitored Group's progress in implementing its Global Standards Programme and effectiveness of its financial crime risk controls following release of 2012 Deferred Prosecution Agreement
- ◆ Reviewed activities to address key bribery and corruption risks
- ◆ Provided oversight on Skilled Person recommendations to strengthen financial crime controls

- ◆ Engaged in programmed transition of FSVC oversight responsibilities to Group Risk Committee as Group's financial crime controls and culture are embedded as 'business as usual'

7. Group Remuneration Committee

Role of the Committee

- ◆ Setting the principles, parameters and governance framework of the Group's remuneration policy
- ◆ Setting the remuneration of executive and non-executive directors and other senior executives of the Group and its subsidiaries
- ◆ Ensuring that remuneration policies are aligned with the Group's risk appetite and the regulatory/legislative requirements with which we are required to comply

Composition

Pauline van der Meer Mohr (3.5 years)

Henri de Castries (3 years)

Irene Lee (3.5 years)

David Nish (3 years)

8 meetings held in 2018

Key areas of focus in 2018

- ◆ Designing the new directors' remuneration policy for shareholder approval at the 2019 AGM
- ◆ Continuing to embed the Incentivising Compliance framework (e.g. through scorecards, the employee recognition and conduct framework), including seeking feedback from GRC, FSVC and GAC
- ◆ Addressing feedback from the PRA and FCA, the internal audit of our remuneration policies and procedures and the employee performance and pay review survey
- ◆ Gender pay

2019 priorities shaped by:

- ◆ Work to enhance the interaction on remuneration matters with other Board committees (GRC and GAC) and RemCo's of principal subsidiaries
- ◆ Feedback from PRA and FCA reviews of remuneration decisions
- ◆ UK Corporate Governance Code reforms, in particular a focus on wider workforce remuneration and related policies
- ◆ Results of the employee performance and pay review survey

2019 Directors' remuneration policy (1)

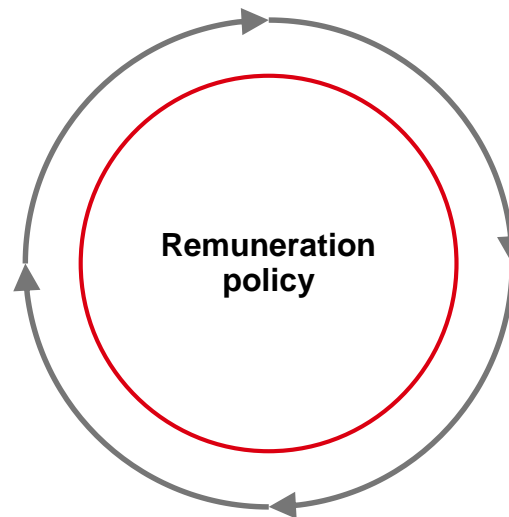
- ◆ We are seeking shareholder approval for a new remuneration policy for Directors. The current policy was approved at the 2016 AGM and will expire at the 2019 AGM
- ◆ Our underlying pay philosophy is to competitively reward the achievement of long-term sustainable performance and attract, motivate and retain the very best people who will perform their role in the long-term interests of our stakeholders
- ◆ The challenge is finding an appropriate balance between the differing priorities of all our stakeholders, while at the same time remaining competitive
- ◆ Taking into account shareholder feedback, internal priorities, regulatory and corporate governance requirements, and guidelines from proxy voting agencies and shareholders, we used the following guiding principles for designing the proposed new policy

Simplification

Simplify the remuneration structure of our executives

Alignment

Align the interests of executives, employees, shareholders and other stakeholders



Market competitive

Maintain market competitiveness of our executive pay

Compliant

Compliant with PRA rules and the UK Corporate Governance Code

2019 Directors' remuneration policy (2)

Key areas of feedback from investors included:

- ◆ Alignment of arrangements between executives and the wider workforce (e.g. salary increase, pension entitlement)
 - Salary increase proposed for executive directors is in line with average salary increase for UK employees
 - Pension allowance for executive directors aligns with HSBC's contribution for the majority of our UK workforce
- ◆ Preference for ESG objectives
 - Added an ESG measure to LTI scorecard
- ◆ Requirement for post-cessation shareholding
 - Our current policy structure for executive directors achieves the same alignment as a shareholding requirement post-cessation of employment
- ◆ Minimum 5 year deferral period
 - LTI awards are subject to deferral and retention for a period up to 8 years with a weighted average holding period (combined vesting and retention period) of six years

8. Questions & Answers

Buffet lunch

