GROUP RISK COMMITTEE

Terms of Reference

Membership

The Committee shall comprise not less than three independent non-executive directors.
The Chairman of the Committee shall be appointed by the Board from among the non-executive directors it has determined to be independent.

The Board may from time to time appoint additional members to the Committee from among the non-executive directors it has determined to be independent and, subject to the Company's Articles of Association, such other persons as the Board considers to be independent.

The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least six times each year.

The quorum for meetings shall be two Directors, one of whom should be the Committee Chairman, unless he or she is unable to attend due to exceptional circumstances.

Objective

The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of, and advice to the Board on, high level risk related matters and risk governance.

Responsibilities of the Committee

Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretions:

1. To oversee and advise the Board on high-level risk related matters.

   In providing such oversight and advice to the Board the Committee shall oversee (i) current and forward-looking risk exposures; (ii) the Group's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Group.

2. To advise the Board on risk appetite and tolerance in determining strategy.

   In preparing advice to the Board on risk appetite and tolerance the Committee shall (i) satisfy itself that risk appetite informs the Group's strategy; (ii) seek such assurance as it may deem appropriate that account has been taken of the current and prospective

macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, the FSA and other authoritative sources that may be relevant; (iii) review and approve the methodology used in establishing the Group's risk appetite including for example risk asset ratios, limits on exposures and concentrations, leverage ratios, economic capital ratios and stress and scenario testing; and (iv) review the results of appropriate stress and scenario testing.

3. To advise the Board and/or the Remuneration Committee on alignment of remuneration with risk appetite.

4. To consider and advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Group Risk Committee.

   In preparing such advice the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.

5. To require regular risk management reports from management which:

   (i) enable the Committee to assess the risks involved in the Group's business and how they are controlled and monitored by management; and

   (ii) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Group's vulnerability to hitherto unknown or unidentified risks.

6. To review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems) In undertaking this responsibility the Committee shall:

   (i) satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;

   (ii) satisfy itself that there are adequate procedures in place for requiring compliance with Group policies;

   (iii) consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management processes;

   (iv) discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Group Audit Committee shall have primary responsibility in this regard in relation to internal financial controls;

   (v) satisfy itself that the risk management function is adequately

resourced(including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within the Group and is free from constraint by management or other restrictions;

(vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board; and

(vii) meet alone with the Head of Internal Audit at least twice a year.

7. To make recommendations to the Board on the appointment and removal of the Group Chief Risk Officer.

   The Committee shall seek such assurance as it may deem appropriate that the Group Chief Risk Officer:

   (i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis;

   (ii) has satisfied himself or herself that risk originators in business units are aware of and aligned with the Group's risk appetite;

   (iii) has a status of total independence from individual business units;

   (iv) reports to the Committee, alongside an internal reporting line to the Group Chief Executive;

   (v) cannot be removed from office without the prior agreement of the Board; and

   (vi) has direct access to the Chairman of the Committee in the event of need.

8. To seek to embed and maintain throughout the Group a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.

9. To review any issue which arises from any report from internal audit, the external auditor's annual report on the progress of the external audit, the management letter from the external auditor, any queries raised by the external auditor to management or, in each case, responses from management, which relates to the management of risk or internal control and has been referred to the Committee by the Group Audit Committee or as the Group Risk Committee shall consider appropriate.

10. To require a timely response to be provided by management on material issues relating to the management of risk or internal control (other than internal financial control) raised in the external auditor's management letter which are considered by the Committee.

11. To review and endorse the content of the Risk Committee Report in the annual report and accounts for submission to the Board.

    In reviewing the Report before submission to the Board, the Committee shall focus

particularly on meeting the following key objectives:

(i) strategic focus – the report should seek to put the Group's agreed strategy into a risk management context, this should include information on the inherent risks to which the strategy exposes the Group, the associated risk appetite and tolerance and how the actual risk appetite is assessed over time;

(ii) forward looking – the report should provide information to the reader that indicates the expected impact of potential risks facing the Group, including, where used, high level information on stress testing; and

(iii) risk management processes – the report should provide a brief description of how risk is managed in the Group and illustrate the role of the Committee in providing oversight to such processes.

12. To review and endorse the content of the statements made in relation to internal controls (other than internal financial controls) in the annual report and accounts for submission to the Board.

13. To (i) review at least annually the terms of reference for the Risk Management Meetings of the Group Management Board; and (ii) to review the minutes of such meetings and such further information as the Risk Management Meeting of the Group Management Board may request from time to time

14. To provide to the Board such additional assurance as it may reasonably require regarding the reliability of risk information submitted to it.

15. To review the composition, powers, duties and responsibilities of other non-executive committees with responsibility for oversight of risk within the Group and where appropriate, to review core terms of reference for adoption by such committees and approve material deviations from such core terms.

16. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

17. To consider whether external advice on risk matters should be taken in particular to challenge analysis undertaken and assessments made by the Committee and the risk management function, for example an external adviser might be asked for input on the stress and scenario testing of a business strategy.

    The Committee is authorised by the Board to obtain such professional external advice as it shall deem appropriate as a means of taking full account of relevant risk experience elsewhere and in challenging its analysis and assessment. Any such appointment shall be made through the secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by HSBC on behalf of the Committee.

18. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.

19. To report to the Board on the matters set out in these terms of reference and how the Committee has discharged its responsibilities.

The Committee may consider any matter relating to and may request any information as it considers appropriate from any risk committee, or other committee which has responsibility for the oversight of risk, within the HSBC Group.

Where there is a perceived overlap of responsibilities between the Group Audit Committee and the Group Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfil any obligation. An obligation under the terms of reference of the Group Risk Committee or the Group Audit Committee will be deemed by the Board of Directors of HSBC Holdings plc to have been fulfilled providing it is dealt with by either the Group Audit Committee or the Group Risk Committee.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements.