

HSBC HOLDINGS PLC
FINANCIAL SYSTEM VULNERABILITIES COMMITTEE

Terms of Reference

1. Purpose

The Board of HSBC Holdings plc (“Company”) has delegated responsibility to the Financial System Vulnerabilities Committee (“Committee”) for the oversight of matters relating to financial crime and financial system abuse, including anti-money laundering (“AML”), sanctions, terrorist financing, proliferation financing and anti-bribery and corruption.

The Committee shall also provide governance, and advise the Board on the Group’s framework of controls and procedures designed to identify areas where HSBC may become exposed, and through that exposure the financial system more broadly may be exposed, to financial crime or system abuse.

The Committee shall use its knowledge and experience to help place HSBC at the forefront of thought leadership in this area and shall oversee and report to the Board on management’s implementation of actions necessary to build assurance in these areas.

2. Membership

The Committee (including the Chairman) shall comprise:

- (i) not less than two independent non-executive Directors;
- (ii) a senior representative of HSBC Bank USA, National Association (“HBUS”) or HSBC North America Holdings, Inc. (“HNAH”) who:
 - (a) has expertise in AML, sanctions, terrorist financing and proliferation financing matters; and
 - (b) is normally resident in the United States; and
- (iii) at least two external experts, one of whom has US expertise and one of whom has UK expertise on AML, sanctions, terrorist financing and proliferation financing matters.

The Chairman of the Committee shall be appointed by the Board from among the independent non-executive Directors.

Prior consent of the Financial Conduct Authority (“FCA”) is required before any appointment is made to the Committee.

3. Attendance

Only members have the right to attend Committee meetings; others, by invitation for the whole or part of the meeting.

The Group Money Laundering Reporting Officer (“Group MLRO”) and the Group Head of Financial Crime Risk shall also attend meetings of the Committee.

4. Meetings and quorum

The Chairman shall ensure that the Committee meets with sufficient notice and frequency.

The quorum for meetings is two members, including the Chairman or his delegate.

The Secretary of the Committee is the Group Company Secretary (or his nominee).

5. Responsibility of the Chairman

The Chairman’s role requires:

- Fostering an open and inclusive discussion which challenges executives, where appropriate;
- Ensuring the Committee devotes sufficient time and attention to matters within its remit;
- Ensuring the Committee and its members have the information necessary to perform their tasks;
- Facilitating the running of the Committee so that it provides independent oversight of executive decisions;
- Safeguarding the independence of, and overseeing the performance of, the Financial Crime Risk Function for matters pertaining to: financial crime compliance; and
- Reporting to the Board on the Committee’s activities.

6. Areas of responsibility

The Committee’s responsibilities shall include:

1. To monitor, review and advise the Board on the effectiveness of policies and procedures established in relation to the Company and its subsidiary undertakings (as defined in regulation 15(3) of the Money Laundering

Regulations 2007) (together the “Group”) who are not subject to requirements under UK law concerning UK AML, sanctions, terrorist financing, proliferation financing and anti-bribery and corruption requirements (“UK requirements”), sufficient to provide a level of protection concerning AML, sanctions, terrorist financing, proliferation financing and anti-bribery and corruption equivalent to that provided under UK requirements:

- to the extent that the Company is able to do so with respect to any subsidiary undertaking having regard to the level of shares and/or voting power held by the Company, directly or indirectly, in respect of any subsidiary undertaking; and
 - other than to the extent such policies and procedures are not permitted under the law of the jurisdiction in which any subsidiary undertaking or branch is incorporated, located or has operations.
2. To monitor, review and advise the Board on the effectiveness of policies and procedures established by management to ensure compliance with the UK requirements by the Company and other members of the Group who are subject to UK requirements.
 3. To monitor, review and advise the Board on the effectiveness of adequate policies and procedures established by management to ensure compliance by the Company and other members of the Group with the requirements of the settlement agreements entered into with HBUS, HNAH and/or the Company or issued to HNAH and/or HBUS and/or the Company by a number of US authorities in relation to AML failings and related matters on 11 December 2012 (including the consent cease and desist order (“C&D order”) issued by the Board of Governors of the Federal Reserve System) and the 2013 FCA Direction Notice, to the extent that the Company is able to do so with respect to any subsidiary undertaking having regard to the level of shares or voting power held by the Company, directly or indirectly, in respect of that subsidiary undertaking.
 4. To receive regular reports from, and pay proper regard to the recommendations of (i) any skilled person appointed under section 166 of the Financial Services and Markets Act 2000 to provide independent oversight of the implementation and ongoing operations of the Group in complying with AML, sanctions, terrorist financing and proliferation financing obligations, and (ii) the Group MLRO.
 5. To receive reports at any time but on no less frequency than each quarter from the Group Head of Financial Crime Risk.
 6. To monitor, review and advise the Board on the effectiveness of policies and procedures to ensure proactive notification to the Group MLRO and to the

relevant national regulators of any AML, sanctions, terrorist financing, proliferation financing and anti-bribery and corruption issues that are likely to constitute a breach of applicable laws or regulations by the Company or any member of the Group.

7. To oversee and advise the Board on areas where the Group (and more broadly the financial system) may become exposed, to financial crime or system abuse, and to provide governance, oversight and guidance over the Group's framework of controls and procedures designed by management to identify financial crime and financial system abuse risks, including the following:
 - 7.1 anti-money laundering systems and controls;
 - 7.2 prevention of terrorist financing;
 - 7.3 prevention of association with illegal drugs activities;
 - 7.4 anti-bribery and corruption;
 - 7.5 application and enforcement of financial sanctions;
 - 7.6 intelligence in relation to all of the above regarding emerging threats; and
 - 7.7 maintenance of effective relationships with Governments and law enforcement agencies in relation to the above.
8. To review implementation progress in relation to agreed policies and procedures, receiving input in this regard from the Financial Crime Risk Management Meeting of the Group Management Board.
9. To advise the Board and/or the Group Remuneration Committee on the Group's progress in developing and implementing an effective AML and sanctions compliance programme and in complying with the C&D Order and the direction notice received by the Company from the FCA on 2 April 2013. The Group Remuneration Committee may consider these reports in its determination of incentive awards for Group employees.
10. To consider issues communicated to it by the Group Audit Committee ("GAC") arising from the work of the Internal Audit function relating to matters which fall within the purpose and responsibilities of the Committee. The Committee shall provide feedback to the GAC on its review, including the adequacy of the work of Internal Audit.
11. To establish a process through which the Internal Audit function may bring to the Committee's attention matters arising in the course of their work pertaining to the purpose and responsibilities of the Committee and to advise the GAC of their work in this area.
12. To report to the Group Risk Committee ("GRC") on the monitoring and the effectiveness of risk management and internal controls on matters which fall

within the scope of the Committee's purpose and responsibilities so as to provide input to the GRC's assessment of internal controls on which it provides an annual report to the Board.

13. To approve the establishment of any regional, country or local entity Financial System Risk Advisory Committee ("FSRAC") within the Group, including membership.
14. To receive regular reports from FSRACs established within the Group.
15. 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.
16. The Committee shall provide:
 - a. a quarterly report to the Board;
 - b. a semi-annual report to the Core College of Regulators of the Group;
 - c. an annual summary report to the Global College of Regulators of the Group or other regulators as the FCA and/or Prudential Regulation Authority confirm in writing from time to time;
 - d. full minutes and papers to the FCA;
 - e. oversight of any reporting to the Department of Justice in accordance with the terms of the DPA, to be shared with the FCA and any other involved regulatory authority and the Federal Reserve Bank of Chicago;
 - f. oversight of any reporting in compliance with the C&D order, to be shared with the FCA; and
 - g. reports to the FCA in accordance with its requests on compliance of the Group with UK requirements.

7. **Operation of the Committee**

The Committee:

- Shall review annually these terms of reference and its own effectiveness as well as the quality of information it receives and recommend any necessary changes. Any material amendments to these terms of reference must be approved by the FCA.
- Shall report to the Board on the matters set out in these terms of reference and how the Committee has discharged its responsibilities.
- May request any information it considers appropriate from any of the Company's subsidiaries.

- Is authorised by the Board to engage independent professional advisers and have access to such resources including employees as it may consider appropriate.
- Shall give consideration to laws and regulations of all applicable jurisdictions and regulators.
- Shall work and liaise as necessary with all other Board committees (including to determine where there is an overlap in responsibilities), as well as with the FSRACs established within the Group (setting clear expectations for the latter). The Committee's interaction with other boards and committees of the Group will be reflected in the detailed plans and processes for the Committee which are developed on an ongoing basis throughout each calendar year.