

**HSBC HOLDINGS PLC**  
**GROUP AUDIT COMMITTEE**

**Terms of Reference**

**1. Purpose**

The Board of HSBC Holdings plc (the “Company”) has delegated responsibility to the Group Audit Committee (the “Committee”) for the oversight of matters relating to financial reporting and internal financial controls, in particular reviewing:

- 1.1 the integrity of the financial statements, formal announcements, and disclosures relating to financial performance;
- 1.2 the effectiveness of Global Internal Audit function (“INA”) and the external auditor;
- 1.3 the effectiveness of internal financial control systems; and
- 1.4 such other matters as may be referred to it by the Board of the Company.

**2. Membership**

The Committee (including the Chair) will comprise at least three members, all of whom shall be independent non-executive directors. The Committee shall include at least one member of the Group Risk Committee.

At least one member of the Committee will have recent and relevant financial experience. The Committee as a whole shall have competent knowledge of the financial services sector.

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

**3. Attendance**

Only members have the right to attend Committee meetings. The Committee may invite any director, executive, independent 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 satisfaction of its responsibilities.

Members are expected to attend Committee meetings in person where possible, but may also attend by telephone or video conference.

The Committee shall meet separately with the external auditor and with the Global Head of Audit (“GHA”) at least twice each year without management present.

#### **4. Meetings and quorum**

The Committee shall meet with sufficient notice and with such frequency and at such times as it may determine.

The quorum for meetings is two members, including the Chair (or his/her delegate from among the members).

The Secretary of the Committee is the Group Company Secretary and Chief Governance Officer (or their nominee).

#### **5. Responsibility of the Chair**

The Chair’s role requires:

- Fostering an open, inclusive and, where appropriate, challenging discussion;
- Ensuring the Committee has the information necessary to perform its tasks and devote sufficient attention to the matters within its remit;
- Facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
- Responsibility for the independence, autonomy and effectiveness of the firm’s policies and procedures on whistleblowing, including the procedures for the protection of staff who raise concerns from detrimental treatment;
- Acting as the whistleblowers’ champion;
- Safeguarding the independence and overseeing the performance of INA; and
- Reporting to the Board on the Committee’s activities.

#### **6. Areas of responsibility**

The Committee’s responsibilities shall include:

##### **6.1 Financial reporting**

- 6.1.1 monitor and critically assess the integrity of financial statements of the Company, and any formal announcements and supplementary regulatory information relating to the Company’s financial performance. Where appropriate, the Committee may delegate its responsibilities in relation to the review and approval for formal announcements and supplementary regulatory information relating to the Company’s financial performance to the Disclosure Committee;

- 6.1.2 review, and consider changes to, significant accounting policies and disclosure practices;
- 6.1.3 review, and report to the Board on, significant accounting judgements and adjustments;
- 6.1.4 review going concern assumptions and the viability statement (in conjunction with the Group Risk Committee) and provide confirmation to the Board of the Company's profitability;
- 6.1.5 review compliance with accounting standards, listing rules and other relevant requirements relating to financial reporting;
- 6.1.6 review disclosure that describes the work of the Committee and areas of special interest
- 6.1.7 review comment letters from regulatory authorities;
- 6.1.8 review matters as advised by INA, any other function or the external auditor;
- 6.1.9 review any significant or unusual items that may need to be highlighted in the annual report by the external auditor;
- 6.1.10 at its discretion, review reports and minutes of the Disclosure Committee;
- 6.1.11 review the adequacy of resources and expertise as well as succession planning for the Global Finance function;
- 6.1.12 advise the Board that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- 6.1.13 report to the Board on the Company's compliance with all applicable corporate governance codes or standards in relation to financial reporting;
- 6.1.14 provide assurances to the Board regarding compliance by the Group with relevant regulations relating to financial reporting.

## **6.2 Internal Audit**

- 6.2.1 Review and approve the INA Charter;
- 6.2.2 oversee the work of INA which reports functionally into the Chair of the Committee and to approve the appointment and removal of the GHA;
- 6.2.3 monitor and assess the effectiveness (including an external review every 5 years), performance, resourcing, independence and standing of the INA;
- 6.2.4 consider major findings of internal investigations and management's response;
- 6.2.5 approve the INA budget and annual work plan (including material plan changes during the year);
- 6.2.6 satisfy itself that the INA work plan is aligned to the key risks of the business;
- 6.2.7 satisfy itself there is appropriate co-ordination between INA and the external auditor;
- 6.2.8 to request that management inform other Board committees on (a) material issues arising from or (b) shortcomings perceived in the scope or adequacy of, the work of INA relating to matters falling within the scope of such committees and that feedback is received from them.

## **6.3 External Audit**

- 6.3.1 Apply HSBC policy and Corporate Governance Code requirements, as appropriate, including conduct a tender and make recommendations to the Board, for it to put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment, or removal of the external auditor and to approve their remuneration and terms of engagement;
- 6.3.2 oversee the implementation by management of the HSBC Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant regulatory requirements;
- 6.3.3 approve in advance the supply of any non-audit services by the external auditor: (a) considering the impact this may have on independence, (b) taking into account the relevant regulations and ethical guidance in this regard, (c) agreeing the terms of engagement and (d) the fees for any such services; and report to the Board on any improvement or action required;

- 6.3.4 review and monitor the external auditor's independence, objectivity and the quality and effectiveness of the audit, considering relevant professional, regulatory and other requirements;
- 6.3.5 oversee the rotation of audit partners/ external auditors;
- 6.3.6 review the external auditor's report on the progress of the audit, its management letter, any material queries raised by the external auditor to management (and their responses). Any material risk or internal control issues (other than issues relating to internal controls over financial reporting) shall be referred to the Group Risk Committee, as appropriate;
- 6.3.7 discuss with the external auditor the approach, nature, and scope of their audit and reporting obligations throughout the audit process including:
- any significant accounting and auditing problems and reservations;
  - major judgemental areas;
  - alternative accounting treatments together with the potential ramifications;
  - any significant accounting adjustments;
  - the going concern assumptions and viability statement;
  - compliance with accounting standards, stock exchange rules and legal requirements;
  - reclassifications or proposed additional disclosures;
  - any material changes in accounting policies and practices, any communications provided by the external auditor to management and other matters the external auditor wishes to discuss.
- 6.3.8 oversee the implementation by management of the HSBC Group policy for the engagement of former employees and contractors of the external auditor.

#### **6.4 Internal Controls**

- 6.4.1 review the effectiveness of the Company's and its subsidiaries' internal financial controls (the systems established to identify, assess, manage and monitor financial risks);
- 6.4.2 consider any findings of major investigations of internal control over financial reporting matters, management's response and the conclusions of any testing carried out by internal or external auditors;
- 6.4.3 review all significant deficiencies and material weaknesses in the design or

operation of internal controls over financial reporting (including any annual report, and other reports as required by applicable laws and regulations, from the Company's Chief Executive and Chief Financial Officer (or equivalent) that such persons have disclosed to the Committee and to the external auditor) which could adversely affect the Company's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal financial controls;

- 6.4.4 review and endorse the content of the statement relating to internal financial controls in the annual report for submission to the Board.

## **6.5 Whistleblowing**

- 6.5.1 (a) Oversee the Group's policies and procedures for capturing and responding to whistleblower concerns; (b) oversee the Group's procedures to ensure confidentiality, protection and fair treatment of whistleblowers; (c) routinely review reports arising from the operation of the whistleblowing policies and procedures; and (d) satisfy itself that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action;
- 6.5.2 annually review the operation and effectiveness of the arrangements by which staff may, in confidence, raise concerns.

## **6.6 Audit committees of the Company's Principal Subsidiaries**

The Group's principal subsidiary companies are shown in Appendix 1 attached to these terms of reference. The Committee's responsibilities in relation to these subsidiary companies are as follows:

- 6.6.1 To review core terms of reference for adoption by such principal subsidiary company committees with responsibility for oversight of audit within the Group and endorse material deviations.
- 6.6.2 To work and liaise as necessary with the Group's principal subsidiaries and their audit committees (setting clear expectations for the latter). In exercising its responsibilities, the Committee will have the right to request principal subsidiary audit committees to take action or provide information and documentation from time to time such as it shall determine. This may include the following:
- (a) receiving copies of the minutes from each principal subsidiary audit committee;

- (b) receiving appropriate assurance certificates on demand and at least half-yearly, to support the Company's external reporting;
- (c) encouraging information sharing and best practice to be adopted; and
- (d) encouraging interaction with the Committee and between the Chairs of principal subsidiary audit committees.

## **7. Operation of the Committee**

The Committee:

- Shall annually review these terms of reference and its own effectiveness as well as the quality of information it receives and recommend any necessary changes.
- Shall report to the Board on the matters set out in these terms of reference, how the Committee has discharged its responsibilities and will make recommendations on action needed to resolve concerns or make improvements.
- May request any information it considers appropriate from any of the audit committees of the Company's subsidiaries.
- Is authorised by the Board to engage special counsel, advisers, experts, or other consultants and have access to such resources including employees as the Committee 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 or any gaps in responsibilities). The Committee's interaction with other relevant 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.

## **APPENDIX 1**

### **Group Audit Committee Terms of Reference**

Principal Subsidiary companies of HSBC Holdings plc:

The Hongkong and Shanghai Banking Corporation Limited

HSBC North America Holdings Inc

HSBC Bank Canada

HSBC Bank plc

HSBC Latin America Holdings (UK) Limited

HSBC Bank Middle East Holdings B.V

HSBC UK Bank plc