

HSBC HOLDINGS PLC

GROUP REMUNERATION COMMITTEE

Terms of Reference

1. Purpose

- 1.1 The Board of HSBC Holdings plc ('the Company') has delegated responsibility for matters related to remuneration for the Company and its subsidiaries (the 'Group') to the Group Remuneration Committee (the 'Committee'), in particular, for:
- (a) Reviewing and approving the principles, parameters and governance of the Group's remuneration framework as applicable to the Group's workforce;
 - (b) Reviewing and approving the remuneration of non-executive Directors, executive Directors and other 'Senior Executives' (Group Managing Directors, Group General Managers and the Group Company Secretary and Chief Governance Officer);
 - (c) Reviewing and satisfying itself that the remuneration structure for employees subject to Group, local and any specific sectorial regulations (Material Risk Takers (MRTs)), is in accordance with the requirements of the Group's regulators;
 - (d) Satisfying itself that remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Group; and
 - (e) Assessing that there are effective safeguards in place to ensure that remuneration practices are clearly aligned with the regulatory and other legislative requirements that the Group is required to comply with.
- 1.2 The Committee is concerned with the business of the whole Group and accordingly its authority extends to all relevant matters relating to the Group.

2. Membership

- 2.1 The Committee (including the Chair) will comprise at least three members, all of whom shall be independent non-executive directors.
- 2.2 At least one member of the Committee shall also sit on the Risk Committee.
- 2.3 The Chair shall be appointed by the Board from among the independent non-executive directors and shall have served for at least 12 months on the Committee or another remuneration committee before taking up the role.
- 2.4 Members of the Committee will collectively have appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities.

3. Attendance

- 3.1 Only members have the right to attend Committee meetings.

- 3.2 The Committee may invite any individual(s) to attend any meeting(s) of the Committee as it may from time to time consider necessary to assist the Committee in the attainment of its objective.
- 3.3 The Group Chief Risk Officer will attend meetings to report on the alignment of the Group's remuneration framework and proposals with its risk profile and risk management. The Group Chief Financial Officer will attend meetings, at the invitation of the Committee, as necessary to report on the alignment of the Group's remuneration framework and proposals with its capital profile.
- 3.4 Members are expected to attend Committee meetings in person where possible, but may also attend by telephone or video conference.

4. Meetings and quorum

- 4.1 The Chair shall ensure that the Committee meets with sufficient notice and frequency.
- 4.2 The quorum for meetings is two members, including the Chair or his/her delegate.
- 4.3 The Secretary of the Committee is the Group Company Secretary (or his/her nominee).

5. Responsibility of the Chair

The Chair's role requires:

- 5.1 Fostering an open, inclusive and, where appropriate, challenging discussion;
- 5.2 Ensuring the Committee and its members have the information necessary to perform their tasks and devote sufficient time and attention to the matters within their remit;
- 5.3 Facilitating the running of the Committee to assist it in providing independent oversight of relevant executive decisions; and
- 5.4 Reporting to the Board on the Committee's activities.

6. Areas of Responsibility

The Committee's responsibilities shall include:

6.1 Remuneration framework and governance

6.1.1 Reviewing and approving the principles, parameters and governance of the Group's remuneration framework, as applicable to the Group's workforce, in line with the risk appetite, business strategy, culture and values, and the long-term sustainable success of the Group.

(a) Determine, review and update, as appropriate, the remuneration framework of the Group (with input from subsidiary boards as necessary), including the review and sanction of the following:

- the methods for measuring performance;

- fixed and variable pay plans;
- retirement benefit plans where the associated funding arrangements exceed an amount as specified by the Committee from time to time (the Committee threshold);
- employee share plans (prior to referral to shareholders, as applicable);
- shareholding requirements;
- malus and clawback and other risk adjustment mechanisms; and
- severance.

(b) Review and approve remuneration and severance for any Group employee where it exceeds the Committee threshold in any given performance year.

(c) Review and approve the aggregate variable pay pool.

6.1.2 Setting the Directors' Remuneration Policy and remuneration for non-executive and executive Directors, and approving the remuneration for other Senior Executives of the Group.

(a) Make recommendations to the Board, for approval by shareholders, regarding the Directors' Remuneration Policy and any other remuneration matters that may require shareholder approval taking into account:

- the time commitment and responsibilities of non-executive Directors and executive Directors;
- the long-term interests of shareholders and investors;
- alignment with the remuneration framework as applicable to the wider workforce of the Group;
- the requirement to link pay to performance by reference to corporate, business unit and individual goals and objectives; and
- the adequacy of information provided to shareholders on remuneration policies and practices.

(b) Review and approve the remuneration for non-executive Directors, executive Directors and other Senior Executives, including the remuneration terms of service agreements and termination arrangements (ensuring any such arrangements do not reward failure).

6.1.3 Reviewing and satisfying itself that the remuneration structure for MRTs is in accordance with prevailing regulatory requirements.

(a) Review and approve the approach to be used for identifying Regulated Employees of the Group; and

6.1.4 In carrying out the above responsibilities the Committee shall:

- (a) determine the governance of, and delegated mandates for, approving individual remuneration packages and any changes to framework as covered in 6.1.1 to 6.1.3;
- (b) directly oversee the total remuneration of senior executives in independent control functions, including the Risk and Compliance functions;
- (c) satisfy itself that remuneration for employees in Risk and Compliance functions is determined independently of other business areas;
- (d) approve the deferral approach to be applied and the instruments in which the variable pay of the Regulated Employees should be delivered;
- (e) ensure that no Director or Senior Executive, or any of their associates, is involved in deciding their own remuneration;
- (f) annually review the effectiveness of the Group's reward strategy and approach and methodology for setting the variable pay pool, to ensure remuneration policies and practices continue to react appropriately to external and internal events and allow the Committee to test the criteria used for determining remuneration awards and risk adjustment; and
- (g) ensure that the remuneration structures and procedures implemented to achieve compliance with remuneration regulations are subject to both central and independent internal review at least annually.

6.2 Regulatory, risk and audit

6.2.1 Assessing that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the regulatory and other legislative requirements that the Group is required to comply with (including, where relevant, the specific regulatory obligations of subsidiaries of the Group).

6.2.2 Satisfying itself that the remuneration framework:

- (a) takes into account all types of risks, liquidity and capital levels;
- (b) is consistent with and promotes the sound and effective risk management of the Company;
- (c) does not encourage risk-taking that exceeds the level of tolerated risk of the Company; and
- (d) does not encourage the Company to bear any risk that would undermine its ability to comply with any regulatory obligation.

6.2.3 Reviewing any matters relating to remuneration that need to be reported to the Board, shareholders and the Group's primary regulator. This includes the review and approval of:

- (a) the content of the Directors' Remuneration Report in the annual report and accounts for approval by the Board as a whole;
- (b) the Group's regulatory submissions including the Group's 'Remuneration Policy Statement' for each financial year; and
- (c) any statement required by the Group's primary regulator from the Committee about the Group's remuneration framework.

6.2.4 Seeking advice from the Group Risk Committee ('GRC') on:

- (a) The alignment of risk and remuneration;
- (b) Risk adjustments applied in setting the annual variable pay pool, prior to the Committee's approval; and
- (c) The risk objectives included in the scorecards for the Executive Directors and Senior Management.

6.2.5 Consulting with the GRC to receive their input in the Committee's decision of any adjustment for risks that are under the GRC's oversight.

6.2.6 Considering material issues communicated to it by the Group Audit Committee arising from the work of Internal Audit relating to matters which fall within these terms of reference, including communication of relevant internal audit findings on remuneration matters.

6.3 Responsibilities in relation to the Principal Subsidiaries¹

6.3.1 Approving a decision by any Principal Subsidiary to establish a committee with responsibility for remuneration matters (a "Principal Subsidiary Remuneration Committee");

6.3.2 Endorsing fees to be paid to independent non-executive Directors by Principal Subsidiaries in accordance with the Committee's Subsidiary NED Fee Framework;

6.3.3 Reviewing the core terms of reference for adoption by Principal Subsidiary Remuneration Committees and approve any material deviations²;

6.3.4 Considering any concerns raised by a Principal Subsidiary or a Principal Subsidiary Remuneration Committee that the application of the Group's remuneration framework to that Principal Subsidiary is inconsistent with the Principal Subsidiary complying with its regulatory obligations with a view to reconciling any such inconsistency.

6.3.5 Working and liaising as necessary with the Principal Subsidiaries and, as applicable, the Principal Subsidiary Remuneration Committees (setting clear

¹ The Group's principal subsidiary companies are shown in the Appendix attached to these terms of reference.

² Where a Remuneration Committee is not in place, Principal Subsidiary *Boards* will adopt key points extracted from the core terms of reference to the extent possible.

expectations for the latter) in relation to remuneration matters applicable to each Principal Subsidiary and the subsidiaries in their respective regions.

6.3.6 In exercising its responsibilities, the Committee will have the right to request the boards of the Principal Subsidiaries and, as applicable, the Principal Subsidiary Remuneration 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 board or Principal Subsidiary Remuneration Committee or those of the subsidiaries in their respective regions;
- (b) receiving annual certifications;
- (c) encouraging information sharing and best practice to be adopted; and
- (d) encouraging interaction with the Committee and between the Chairs of the Principal Subsidiary Boards and Principal Subsidiary Remuneration Committees.

7. Operation of the Committee

To ensure effective operation, the Committee:

- 7.1 Shall review annually these terms of reference and its own effectiveness, as well as review the quality of information it receives and recommend any necessary changes.
- 7.2 Shall consider any matter relating to and may request any information as it considers appropriate from any remuneration committee of any HSBC Group company.
- 7.3 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.
- 7.4 May delegate to the Chair authority to make decisions on its behalf on matters which may need attention between Committee meetings, provided that such decisions are notified to the Committee members and ratified at the next scheduled Committee meeting.
- 7.5 May delegate decisions which are not material.
- 7.6 Shall seek confirmation on an annual basis (at least) from the relevant executive management members that remuneration policies and procedures have been implemented as approved by the Committee.
- 7.7 Is authorised by the Board to engage independent professional advisers and have access to such resources including employees as it may consider appropriate.
- 7.8 Shall review the appointment of external remuneration consultants that the Board or Committee may decide to engage for advice or support.
- 7.9 Shall give consideration to laws and regulations of all applicable jurisdictions and regulators.

APPENDIX

Group Remuneration Committee Terms of Reference

Principal Subsidiary companies of HSBC Holdings plc

1. The Hongkong and Shanghai Banking Corporation Limited
2. HSBC North America Holdings Inc
3. HSBC Bank Canada
4. HSBC Bank plc
5. HSBC Latin America Holdings (UK) Limited
6. HSBC Middle East Holdings B.V.
7. HSBC UK Bank plc