

HANG SENG BANK LIMITED (the “Bank”)

TERMS OF REFERENCE OF REMUNERATION COMMITTEE

1 Purpose

- 1.1 The Remuneration Committee (the “**Committee**”) shall report to the Board and, on an exceptional basis only, to the Remuneration Committee of The Hongkong and Shanghai Banking Corporation Limited (“**HBAP**”).
- 1.2 The Committee is responsible for:
- (a) overseeing the implementation and operation of HSBC’s Group Remuneration Policy, as approved by the HSBC Group Remuneration Committee and the shareholders of HSBC Holdings plc in general meetings, insofar as the same is applicable and appropriate to the Bank;
 - (b) reviewing whether the Bank’s remuneration policy complies with all relevant local regulations and is appropriate to attract, retain and motivate Directors and Senior Management of the quality required to run the Bank successfully;
 - (c) considering the relevant issues, if any, that were taken into account by the Bank in agreeing remuneration funding and proposals relevant to the Bank so as to complete the annual pay review process of the Bank.

2 Membership

- 2.1 The Committee shall comprise no fewer than three members, including at least two Independent Non-executive Directors. The Chairman of the Committee shall be an Independent Non-executive Director.
- 2.2 The Chairman and members of the Committee shall be appointed by the Board.
- 2.3 The Board may from time to time appoint additional members to the Committee from among the Non-executive Directors provided that the majority of the Committee members are Independent Non-executive Directors.
- 2.4 The Chairman and each member of the Committee shall be appointed for an initial term until the conclusion of their current term of appointment as a Non-executive Director. Subsequent additional terms of appointment to the Committee may be made being subject to review and approval by the Board.
- 2.5 The Chairman and members of the Committee will collectively have appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities. Appointments to the Committee shall be endorsed by HBAP Remuneration Committee.
- 2.6 The Committee is authorised by the Board to obtain such legal, remuneration or other professional advice as it shall deem appropriate and shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference of remuneration consultants to advise it on all aspects of remuneration.

3 Attendance

- 3.1 Only members have the right to attend Committee meetings.
- 3.2 The Committee may invite any Director, executive or other person 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 Bank's Chief Risk Officer will attend meetings as necessary to present reports on the alignment of the Bank's remuneration policy and proposals with the Bank's risk profile and risk management. The Bank's Chief Financial Officer will attend meetings as necessary to report on the alignment of the Policy and proposals with the Bank's capital profile.

4 Meetings and Quorum

- 4.1 The Committee shall meet with such frequency and at such times as it may determine.
- 4.2 The quorum for meetings shall be two Directors, one of whom shall be the Committee Chairman or (in case he/she is unable to attend due to exceptional circumstances) an Independent Non-executive Director.
- 4.3 The Committee shall be supported by the Committee Secretary (who shall be the Bank's Company Secretary or his/her nominee), and by the Bank's Head of Human Resources (and such executives from Human Resources as he/she shall consider appropriate).
- 4.4 The Committee Secretary shall produce such papers and minutes of the Committee's meetings as are appropriate and distribute them to all members of the Committee.
- 4.5 Following each Committee meeting, the Chairman shall report at the next Board meeting on important matters reviewed by the Committee and present the minutes of the meeting.

5 Areas of Responsibilities

Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities, powers, authorities and discretion:

Remuneration Policy and Governance

- 5.1 To present the Group's Remuneration Policy for the Board's review and approval for adoption, subject to such modifications as the Board, on the Committee's recommendation, may think fit, to suit the Bank's circumstances and governance requirements.
- 5.2 To ensure that remuneration policies, practices and procedures are in line with the business strategy, objectives and long-term interests of the Bank.

- 5.3 To ensure that the remuneration policy and structures as applied to the Bank comply with, and are subject to review as required by, local regulations.
- 5.4 To consider remuneration matters for the Bank and its subsidiaries (if any) in the context of the Group's Remuneration Policy and to provide advice to the Board on the remuneration policy and structure relevant to the Bank and, in particular, its Directors, Senior Management ^{Note(a)}, Key Personnel ^{Note(b)} and Heads of Control Functions ^{Note(c)} based on the context of the local regulatory and market conditions.
- 5.5 To ensure that personnel who provide services to the Bank are remunerated in a way that supports sound and effective risk management and the long-term interests of the Bank (as distinct from the wider Group).
- 5.6 In completing the annual pay review process of the Bank:
- (a) to consider and agree, with HBAP Remuneration Committee, the relevant issues, that were taken into account in agreeing remuneration funding and proposals relevant to the Bank; and
 - (b) to review and approve (prior to, in certain cases, final approval by the Group Remuneration Committee) performance-based remuneration by reference to the Bank's objectives, resolved by the Board from time to time, and to provide feedback to the Board and HBAP Remuneration Committee as required;

In this regard, the Independent Non-executive Directors may require a separate briefing on the remuneration of specific individuals of the Bank and provide their input as appropriate.

- 5.7 To propose (and review, as required) the fees for Non-executive Directors for approval by the Board and the Shareholder(s) and (if required) HBAP Remuneration Committee.
- 5.8 To review and propose for the Board's approval the specific remuneration packages of all Executive Directors, Senior Management, Key Personnel and Heads of Control Functions, including benefits in kind, pension rights and compensation payments, subject to endorsement of HBAP Remuneration Committee, and in so doing, the Committee should ensure that remuneration for employees in risk management and compliance functions is determined independently of other business areas. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Executive Directors, Senior Management, Key Personnel and Heads of Control Functions, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Committee should also

Note(a) Those executives who are (a) Executive Directors of the Bank; (b) Alternate Chief Executives of the Bank; (c) Members of the Executive Committee of the Bank; and (d) Head(s) of the Bank's principal subsidiary/subsidiaries with offshore operations and with total assets representing more than 5% of the Bank's total assets.

Note(b) Employees classified as "Identified Staff and Material Risk Takers" under the UK Prudential Regulation Authority Remuneration Code.

Note(c) Heads of Control Functions include Audit, Risk, Legal and Compliance.

evaluate any practices by which remuneration is paid in respect of potential future revenues whose timing and likelihood remain uncertain.

- 5.9 To review and propose for the Board's approval the compensation payable to Executive Directors, Senior Management, Key Personnel and Heads of Control Functions, subject to endorsement of HBAP Remuneration Committee, in connection with any loss or termination of office or appointment, and compensation arrangements relating to dismissal or removal for misconduct, to ensure that such compensation or arrangements are consistent with contractual terms and that any such compensation is otherwise fair and not excessive, and any such arrangements are otherwise reasonable and appropriate.
- 5.10 To ensure that a regular (at least annually) review of the Bank's remuneration system and its operation, either internally conducted or externally commissioned, is carried out independently of the Management. Such review should include an assessment of the extent to which the remuneration system is consistent with the guidance issued by the relevant regulators.
- 5.11 To periodically review (at least annually), independently of the Management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation, to ensure that the operation of the remuneration system is consistent with the intended purposes and the Bank's long-term interests. The Internal Audit function of the Bank should provide support to the Committee in the review process and report any material weaknesses which are identified;

Regulatory, Risk and Audit

- 5.12 To review and approve any matters relating to remuneration that need to be reported to shareholders and local regulators, and assess that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the Bank's risk appetite and the local regulatory and other legislative requirements that the Bank is required to comply with. This includes the review and approval of:
 - (a) the content of the Remuneration Report (if any) in the annual report and accounts for submission to the Board as a whole; and
 - (b) any statement required by the Bank's local regulators from the Committee on the Bank's remuneration policy.
- 5.13 To seek confirmation from the Bank's Risk Committee, Chief Risk Officer, and/or Audit Committee, as appropriate, that the performance objectives applied in incentive packages are appropriately aligned to the business strategy, objectives, values and long-term interest of the Bank and Group. The Committee should ensure that any risk adjustments have been appropriately applied when assessing actual performance of the Bank, business unit and the individual. In the event of any difference of view, appropriate risk adjustments should be proposed by the Chairman of the Bank on behalf of the Board to HBAP Remuneration Committee for further consideration.

- 5.14 To ensure that the remuneration policies, practices and procedures:
- (a) are consistent with and promote the sound and effective risk management of the Bank;
 - (b) do not encourage risk-taking that exceeds the level of tolerated risk of the Bank; and
 - (c) do not encourage the Bank to bear any risk that would undermine its ability to comply with any regulatory obligation.
- 5.15 To seek input from the Bank's Risk Committee that enables the Committee to assess the effectiveness of Senior Management's role in fostering and maintaining sound corporate culture, which should form part of the decisions on their remuneration.
- 5.16 To advise shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under the Hong Kong Listing Rules.
- 5.17 To ensure that no Director, Senior Management, Key Personnel or Heads of Control Functions or any of his/her associates is involved in deciding his/her own remuneration.

Other

- 5.18 To undertake on behalf of the Chairman of the Bank or the Board such other related tasks as the Chairman of the Bank or the Board may from time to time entrust to it.

6 Responsibilities in relation to the Bank's Remuneration Committee

- 6.1 The Committee shall have oversight responsibility for the remuneration matters considered by the boards or remuneration committees of its subsidiaries as follows:
- (a) escalate key matters in relation to the application of the Group Remuneration Policy or, as appropriate, any other concern in relation to remuneration matters;
 - (b) escalate any relevant issues to HBAP Remuneration Committee as escalated by the boards or remuneration committees of the Bank's subsidiaries within the subsidiary's region;
 - (c) work and liaise as necessary with HBAP Remuneration Committee, and with the boards or remuneration committees of the Bank's subsidiaries in relation to remuneration matters; and
 - (d) take action or provide documentation from time to time as requested by HBAP Remuneration Committee, in respect of the Bank and, if relevant, its subsidiaries. This may include:
 - providing copies of the minutes;
 - providing periodic certifications;

- adopting best practices (as recommended by HSBC Group Remuneration Committee) and being forthcoming in sharing information; and
- interacting with HBAP Remuneration Committee and/or its Chair on a regular basis.

6.2 If the Committee escalates to HBAP Remuneration Committee any concern that the application of the Bank's remuneration policy would prevent compliance with paragraph 5.14(c) above, the Committee shall have the authority to act outside the remuneration policy to the extent necessary to ensure compliance.

7 Operation of the Committee

The Committee:

- 7.1 shall, in carrying out the above responsibilities, at all times, discuss any concerns on the application of Group Remuneration Policy to the Bank with the Board for escalation, if appropriate, to HBAP Remuneration Committee.
- 7.2 shall, other than in the exercise of discretion by the Committee based upon the framework previously agreed, to report, without delay, to the Board of the Bank and HBAP Remuneration Committee any significant breach of law or regulations or any breach of the remuneration policy that has been brought to the attention of the Committee, and to provide such certification as may be required by the HBAP Remuneration Committee.
- 7.3 shall review annually the Committee's terms of reference and its own effectiveness and recommend any necessary changes for approval of the Board and in the case of any material deviation from the core terms of reference for subsidiary remuneration committees, endorsement of HBAP Remuneration Committee.

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