

HSBC HOLDINGS PLC
GROUP REMUNERATION COMMITTEE

Terms of Reference

1. Purpose

The Board of HSBC Holdings plc ('the Group') has delegated responsibility for matters related to remuneration to the Group Remuneration Committee (the 'Committee'), in particular for setting:

- 1.1 The principles, parameters and governance framework of the Group's remuneration policy as applicable to all Group employees;
- 1.2 The remuneration of non-executive Directors, executive Directors, other 'Senior Executives' (Group Managing Directors, Group General Managers and the Group Company Secretary) and other 'Regulated Employees' (being employees whose activities have or could have a material impact on the Group's risk profile, in accordance with the requirements of the Group's regulators).

2. Membership

The Committee (including the Chair of the Committee (the 'Chair')) will comprise at least three independent non-executive directors.

At least one member of the Committee shall also sit on the Risk Committee.

The Chair of the Committee shall be appointed by the Board from among the independent non-executive directors and shall have served for at least 12 months on a remuneration committee before taking up the role. 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

Only members have the right to attend Committee meetings.

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.

The Group Chief Risk Officer will attend meetings as necessary to present reports on the alignment of the Group's remuneration policy and proposals with its risk profile and risk management. The Group's Finance Director will attend meetings as necessary to report on the alignment of the Group's remuneration policy and proposals with its capital profile.

4. Meetings and quorum

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

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

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

5. Responsibility of the Chair

The Chair's role requires:

- Fostering an open, inclusive and where appropriate challenging discussion;
- 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;
- Facilitating the running of the Committee to assist it in providing independent oversight of executive decisions; and
- Reporting to the Board on the Committee's activities.

Areas of Responsibility

The Committee's responsibilities shall include:

6. Remuneration policy and governance

6.1 Setting the principles, parameters and governance framework of the Group's remuneration policy as applicable to all Group employees.

6.1.1 To determine, review and update, as appropriate, the remuneration policy of the Group, including its subsidiaries (with input from subsidiary boards as applicable to local regulatory and market conditions), including the review and sanction of the following new or amended policies:

- salary and incentive plans;
- retirement benefits, and the associated funding arrangements, which are substantial in their cost and impact a significant proportion of employees and, in all cases, any new or increased provision of unfunded liability arrangements or Defined Benefit plans;
- employee share plans (prior to referral to shareholders, as applicable) including any Good Leaver policy;
- malus and clawback; and
- severance.

6.1.2 Review and approve the remuneration for any Group employee where that remuneration exceeds USD 3 million for the performance year.

- 6.2 Setting the remuneration policy and remuneration for non-executive Directors, executive Directors and other Senior Executives of the Group and its subsidiaries.
- 6.2.1 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 wider remuneration policy as applicable to all Group employees;
 - the requirement to link pay to performance by reference to corporate, business unit and individual goals and objectives resolved by the Board; and
 - the adequacy of information provided to shareholders on remuneration policies and practices
- 6.2.2 Review and approve the remuneration for non-executive Directors, executive Directors and other Senior Executives, including:
- the remuneration terms of service contracts;
 - overall market positioning of the remuneration package;
 - shareholding requirements;
 - individual fixed pay;
 - the structure of variable remuneration including annual and long-term incentive arrangements and risk adjustment mechanisms;
 - methods for measuring performance, including the performance criteria;
 - benefit entitlements (including pension arrangements);
 - malus and/or clawback;
 - procedures relating to expenses for non-executive directors and the Group Chief Executive; and
 - termination arrangements and compensation for loss of office.
- 6.3 Setting the remuneration policy and remuneration for Regulated Employees of the Group and its subsidiaries in accordance with prevailing regulatory requirements:
- review and approve the approach to be used for identifying Regulated Employees of the Group;
 - determine, review and update, as appropriate, the remuneration policy for Regulated Employees; and

- review and approve the remuneration for Regulated Employees.

6.4 In carrying out the above responsibilities the Committee shall:

- determine the governance of, and delegated mandates for, approving individual remuneration packages and any changes to policies as covered in 6.1 to 6.3;
- approve:
 - new hire remuneration packages;
 - severance arrangements; and
 - total remuneration (aggregate fixed pay, annual and long-term incentive/bonus arrangements) for any performance year,
 where these are above the thresholds set out in the delegated mandates;
- directly oversee the total remuneration of senior executives in independent control functions including the Risk and Compliance functions;
- ensure that remuneration for employees in Risk and Compliance functions is determined independently of other business areas;
- approve the deferral approach to be applied and the instruments in which the variable pay of the Regulated Employees should be delivered;
- ensure that no Director or Senior Executive, or any of their associates, is involved in deciding their own remuneration;
- for any individual whose remuneration the Committee is responsible for determining, assess the achievement of performance targets and the need for any ex-post risk adjustment, including the application of malus and clawback arrangements;
- 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
- ensure that the remuneration policy and structures are subject to both central and independent internal review at least annually.

7. **Regulatory, risk and audit**

7.1 Reviewing any matters relating to remuneration that need to be reported to the Board, shareholders and the Group's primary regulator, and assessing that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the Group's risk appetite and the regulatory and other legislative requirements that the Group is required to comply with.

Further, the Committee shall ensure that remuneration policies and processes properly take into account all types of risks, liquidity and capital levels and that the Group remuneration policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long-term interest of the Group.

This includes the review and approval of:

- the content of the Directors' Remuneration Report in the annual report and accounts for approval by the Board as a whole;
 - the Group's regulatory submissions including the Group's Remuneration Policy Statement and notable events for each financial year;
 - any statement required by the Group's primary regulator from the Committee about the Group's remuneration policy;
 - the adequacy and effectiveness of the remuneration policy of the Group and its subsidiaries in the context of consistent and effective risk management; and
 - variable pay adjustments, including application of malus and/or clawback, for conduct breaches.
- 7.2 Seeking advice from the Group Risk Committee ('GRC') on the alignment of risk and remuneration and on risk adjustments to be applied in setting annual variable pay pool. The Committee will also seek GRC's input with respect to the risk objectives included in the scorecards for the Executive Directors.
- 7.3 Consulting with the Financial System Vulnerabilities Committee ('FSVC') and Conduct & Values Committee ('CVC') to receive its input in the Committee's decision of any adjustment for risks that are under the FSVC's and CVC's oversight.
- 7.4 Considering material issues communicated to it by the Group Audit Committee ('GAC') 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.

8. Operation of the Committee

- 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.
- May establish core terms of reference for adoption by similar committees of any subsidiary company and, where appropriate, approve material deviations from such core terms.
- Shall consider any matter relating to and may request any information as it considers appropriate from any remuneration committee of any HSBC Group company.
- 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 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.

- May (with the consent of the Board) delegate certain decisions which are not material to Group companies or business units.
- Is authorised by the Board to engage independent professional advisers and have access to such resources including employees as it may consider appropriate.
- Shall review the appointment of external remuneration consultants that the Board or Committee may decide to engage for advice or support.
- Shall give consideration to laws and regulations of all applicable jurisdictions and regulators.