

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 matters relating to financial reporting (including Pillar 3 disclosures) and internal financial controls, in particular reviewing:

- 1.1 the integrity of the financial statements, Pillar 3 disclosures, public announcements, and disclosures relating to financial performance;
- 1.2 the effectiveness of Group Internal Audit and the external auditor; and
- 1.3 the effectiveness of internal financial control systems.

2. Membership

The Committee (including the Chairman) will comprise at least three members, all of whom shall be independent non-executive directors.

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 banking sector.

The Chairman 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; others, by invitation for the whole or part of the meeting.

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, 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 so that it provides 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 Group Internal Audit; 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 the integrity of and critically assess the financial statements of the Company, Pillar 3 disclosures and any formal announcements and supplementary regulatory information relating to the Company's financial performance before submission to the Board;
- 6.1.2 review, and consider changes to, significant accounting policies, including Pillar 3 disclosure policies and practices;
- 6.1.3 review, and report to the Board on, significant accounting judgements and adjustments;
- 6.1.4 review going concern assumptions, the viability statement and provide confirmation to the Board of the Group's profitability;
- 6.1.5 review compliance with accounting standards, listing rules, Pillar 3 disclosure requirements and other relevant requirements;
- 6.1.6 review disclosure of areas of special interest;

- 6.1.7 review comment letters from regulatory authorities;
- 6.1.8 review matters as advised by Group Internal Audit, 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 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 Group Finance function;
- 6.1.12 advise the Board that the annual report and accounts, taken as a whole, is 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 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; and
- 6.1.15 report significant alleged frauds or misrepresentation of assets to the Group Risk Committee.

6.2 Internal Audit

- 6.2.1 approve the Global Internal Audit Charter;
- 6.2.2 oversee the work of Group Internal Audit which reports functionally into the Chair of the Committee and to approve the appointment and removal of the Global Head of Internal Audit ("GHIA");
- 6.2.3 monitor and assess the effectiveness, performance, resourcing, independence and standing of Internal Audit;
- 6.2.4 consider major findings of internal investigations and management's response, to help the Board and management to protect the Group's assets, reputation and sustainability and ensure the effectiveness of relevant risk management and governance processes;

- 6.2.5 approve the Group Internal Audit budget and annual work plan (including material plan changes during the year);
- 6.2.6 ensure that the Group Internal Audit work plan is aligned to the key risks of the business;
- 6.2.7 review co-ordination between Group Internal Audit and the external auditor;
- 6.2.8 ensure material issues arising from the work of Group Internal Audit relating to matters falling within the scope of other committees are communicated to those committees and that feedback is received from them. Accordingly, the GHIA shall provide relevant reports to other committees.

6.3 External Audit

- 6.3.1 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 developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant regulatory requirements and best practice;
- 6.3.3 provide advance approval of any non-audit services to be supplied by the external auditor that are not prohibited by relevant legislation (in amounts to be pre-determined by the Committee) and the fees for any such services;
- 6.3.4 review and monitor the external auditor's independence and the effectiveness of the audit process, 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 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 unresolved accounting and auditing problems/reservations;
- major judgemental areas;
- alternative accounting treatments together with the potential ramifications;
- any significant adjustments;
- the going concern assumption 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 approve the Company's policy for the engagement of former employees/contractors of the external auditor.

6.4 Internal Controls

6.4.1 review the effectiveness of the Company's and its subsidiaries' ("the Group") 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 any annual report, and other reports as required by applicable laws and regulations, from the Group Chief Executive and Group Finance Director that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Group'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 Group's internal financial controls;

6.4.4 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 oversee (a) the Group's policies and procedures for capturing and responding to whistleblower concerns; and (b) the procedures to ensure confidentiality, protection and fair treatment of whistleblowers;
- 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 review the composition, powers and responsibilities of principal subsidiary committees with responsibility for oversight of audit within the Group.
- 6.6.2 endorse papers detailing proposed appointments to principal subsidiary audit committees.
- 6.6.3 review core terms of reference for adoption by such principal subsidiary company committees and approve material deviations.
- 6.6.4 Shall 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 half-yearly certifications;
 - (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 meet alone with the GHIA and with the external auditor at least twice

annually.

- 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.
- 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 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 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 Private Banking Holdings (Suisse) S.A.

HSBC Bank Canada

HSBC Bank plc

HSBC Latin America Holdings (UK) Limited

HSBC Bank Middle East Limited

HSBC UK Bank plc