

# HANG SENG BANK LIMITED (the “Bank”)

## TERMS OF REFERENCE OF REMUNERATION COMMITTEE

### 1. Purpose

- 1.1 The Board has delegated to the Remuneration Committee (the ‘Committee’) oversight of matters related to remuneration impacting the Bank and its subsidiaries, in particular for :
- a) overseeing the implementation and operation of HSBC Group’s remuneration framework, as approved by HSBC Group Remuneration Committee;
  - b) satisfying itself that the remuneration framework does not breach any local law, rule or regulation;
  - c) satisfying itself that the remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank; and
  - d) satisfying itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the Bank.

### 2. Membership

- 2.1 The Committee (including the Chair) shall comprise at least three members, including at least two Non-executive Directors, with a majority being Independent Non-executive Directors or as otherwise required by local regulation.
- 2.2 The Chair of the Committee shall be appointed by the Board from among the Independent Non-executive Directors.
- 2.3 Members of the Committee shall be appointed subject to endorsement by the Remuneration Committee of the Hongkong and Shanghai Banking Corporation Limited (“HBAP”).
- 2.4 Members of the Committee shall collectively have appropriate knowledge, expertise and experience concerning remuneration policies and practices, and risk management oversight activities.
- 2.5 Members shall exclude themselves from any business before the Committee in which they are personally interested or consider they have an actual or potential conflict of interest.
- 2.6 The Chair 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.

### 3. Attendance

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

- 3.2 The Committee may invite any other individual(s) to attend any meeting(s) of the Committee as it may from time to time consider necessary to assist the Committee in undertaking its responsibilities.
- 3.3 The Bank's Chief Risk Officer (or equivalent) will attend meetings from time to time to report on the alignment of the Bank's remuneration framework with the Bank's risk profile and risk management. The Bank's Chief Financial Officer (or equivalent) will attend meetings as necessary to report on the alignment of the remuneration framework and remuneration recommendations 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, subject to regulatory requirements.
- 4.2 The quorum for meetings shall be two members, including the Chair or his / her delegate (from among the Committee's members).
- 4.3 The Secretary of the Committee is the Company Secretary (or his/her nominee).

#### **5. Areas of Responsibility**

The Committee's responsibilities shall include:

##### **5.1 Remuneration framework and governance**

- 5.1.1 Considering remuneration matters for the Bank and its subsidiaries (if any) in the context of HSBC Group's remuneration framework, and provide advice on the application of the framework to the Bank in the context of local regulations and market conditions to the Board and HBAP Remuneration Committee.
- 5.1.2 Satisfying itself that the remuneration framework is in line with the business strategy, culture and values, and long-term interests of the Bank.
- 5.1.3 So as to complete the annual pay review process of the Bank :
- a) considering the relevant issues that were taken into account in agreeing remuneration funding and proposals relevant to the Bank and its subsidiaries, and escalate any matters of concern to HBAP Remuneration Committee; and
  - b) reviewing and approving (prior to, in certain cases, final approval by HSBC Group Remuneration Committee and the Board) performance-based remuneration and to provide feedback to the Board and HBAP Remuneration Committee, as appropriate.
- 5.1.4 Recommending the fees for Directors for approval by the Board, Shareholder(s) (if required), and HBAP Remuneration Committee.

- 5.1.5 Subject to 5.2.1 below, presenting HSBC Group's remuneration framework for the Board's review and approval on adoption.
- 5.1.6 Recommending for the Board's approval the remuneration of the Senior Management and Heads of Control Functions<sup>1</sup>, including :
- a) Individual fixed pay and increases
  - b) Annual and long-term incentive arrangements and adjustments
  - c) Benefit entitlements
  - d) Termination arrangements and compensation for loss of office relating to dismissal or removal for misconduct, ensuring any arrangements are consistent with contractual terms and are otherwise reasonable and appropriate, and do not in any way reward failure
  - e) Any guaranteed variable pay for first-year hires
  - f) Any early payment of deferred award for leavers
  - g) Buy-out awards to compensate for any forfeiture of deferred awards from leaving previous employer
  - h) Pension rights

For this purpose:

- Senior Management includes (a) Executive Directors of the Bank; (b) Members of the Executive Committee of the Bank; (c) Alternate Chief Executives 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; and
  - Heads of Control Functions include Audit, Risk, Legal, and Compliance.
- 5.1.7 Recommending for the Board's approval or approving under delegated authority from the Board, the remuneration of Key Personnel, defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank.
- 5.1.8 Determining as appropriate any further sub-delegation to Management to approve the remuneration of Key Personnel.
- 5.1.9 Presenting to the Board a summary of the remuneration of all Key Personnel for the Board's review and endorsement, as part of annual pay review.

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<sup>1</sup> Population may be employed by the Bank to which the individuals may be employed in supporting the Bank's business as defined and agreed by the Committee.

5.1.10 Ensuring that an annual review of the Bank's remuneration framework and its operation, either internally conducted, or externally commissioned, is carried out independently of Management and the result is submitted to HKMA.

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

## 5.2 **Regulatory, risk and audit**

5.2.1 Satisfying itself that HSBC Group's remuneration framework as applied to the Bank complies with the regulatory and other legislative requirements that the Bank is required to comply with. Where elements of the framework are contrary to local regulations, to seek approval from HSBC Group Remuneration Committee for appropriate deviations from HSBC Group framework to ensure compliance with local regulations.

5.2.2 Satisfying itself that the remuneration framework :

- a) is clearly aligned with the Bank's risk appetite;
- b) is consistent with and promotes the sound and effective risk management of the Bank;
- c) does not encourage risk-taking that exceeds the level of tolerated risk of the Bank; and
- d) does not encourage the Bank to bear any risk that would undermine its ability to comply with any regulatory obligation.

If, in accordance with Section 6.1, the Committee escalates any concern that the application of HSBC Group's remuneration framework to the Bank would prevent compliance with paragraph 5.2.2 (a) through (d) above to HBAP Remuneration Committee, the Bank shall have the authority to act outside HSBC Group's remuneration framework to the extent necessary to ensure compliance, only if the Committee cannot reconcile the position after escalating and engaging with HBAP Remuneration Committee, as appropriate.

5.2.3 Reviewing any material matters relating to remuneration that need to be reported to the Board, shareholders and local regulators. This includes the review and approval of :

- a) the content of the Remuneration Report (if any) in the annual report and accounts (or equivalent) of the Bank; and

b) any material report required by the Bank's local regulators on the Bank's remuneration approach.

- 5.2.4 Seeking advice from the Bank's Risk Committee (or its Chair if he/she is a member of the Committee), Chief Risk Officer (or equivalent) and Audit Committee, as appropriate, on the alignment of risk and remuneration and, as necessary, any relevant adjustments for risk to be considered in respect of the variable pay pool and remuneration outcomes. In the event of any difference of view, appropriate risk adjustments should be recommended by the Chair of the Committee to HBAP Remuneration Committee, for further consideration.
- 5.2.5 Advising shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under the Hong Kong Listing Rules.
- 5.2.6 Ensuring 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.
- 5.3 Undertaking on behalf of the Chair of the Board or the Board itself such other related tasks as the Chair of the Board or the Board itself may from time to time entrust to it.

## **6. Responsibilities in relation to the Group Remuneration Committee**

### **6.1 Certificates and Assurances (Escalation) :**

- 6.1.1 To provide annual certification / attestation to the Board and / or HBAP Remuneration Committee (in a form that is consistent with that required by HSBC Group Remuneration Committee); and
- 6.1.2 To take action, provide documentation or assurances as requested by the Board and / or HBAP Remuneration Committee including : (i) escalate relevant matters in relation to the application of HSBC Group's remuneration framework or, as appropriate, any other concern in relation to remuneration matters for the Bank and its subsidiaries, (ii) provide copies of minutes or supplemental periodic certifications, (iii) adopting best practice, (iv) sharing information, and (v) interacting with its Chair on a regular basis, in each case as appropriate.

### **6.2 Responsibilities of subsidiary remuneration committees**

The Committee shall have oversight responsibility for remuneration matters considered by subsidiary boards or remuneration committees as follows : (a) review the composition, powers, duties and responsibilities of any remuneration committee of the Bank's subsidiaries, (b) oversee the implementation of mechanisms to facilitate the communication and escalation from such subsidiary committees of matters for the Committee's attention including seeking documentation, certifications or assurances such as copies of minutes, periodic certifications, confirmation of adopting best practice, and other forms of sharing information, (c) foster interconnectivity and common governance principles among

HSBC subsidiaries, and (d) discuss such matters as the Committee deems appropriate with the chair or other members of such subsidiary committees.

### 6.3 Reporting to the Board

The Committee will report to the Board on the matters set out in these terms of reference and will provide the Board such additional assurance as it may reasonably require regarding the effectiveness of the Bank's remuneration framework.

## 7. Operation of the Committee

### 7.1 Annual review of terms of reference and committee effectiveness

7.1.1 The Committee shall review annually its terms of reference and its own effectiveness and recommend to the Board any necessary changes.

7.1.2 Annually, the Committee shall report to the Board and inform the Chair of HBAP Remuneration Committee, how the Committee has discharged its responsibilities and will make recommendations on any action(s) needed to resolve concerns or make improvements.

7.1.3 Material deviations<sup>2</sup> from HSBC Group Remuneration Committee Core Terms of Reference require the endorsement from HBAP Remuneration Committee, as and when a material deviation occurs.

### 7.2 External advisers

The Committee may retain special counsel, advisers, experts, or other consultants from time to time to assist consideration of any other matters which the Committee believes are required of it in keeping with its responsibilities. The Committee may obtain such professional external advice as it shall deem appropriate to take account of relevant experience outside the Bank and challenge its analysis and assessment. Any such appointment shall be made through the Company Secretary, who shall be responsible, on behalf of the Committee, for the contractual arrangements and payment of fees by the Bank.

### 7.3 Overlapping responsibilities

Where there is a perceived overlap of responsibilities between the Committee and another committee of the Board, the respective committee Chairs shall have the discretion to agree the most appropriate committee to fulfil any obligation. An obligation under the terms of reference of any committee will be deemed by the Board to have been fulfilled, provided it is dealt with by any other committee.

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<sup>2</sup> "Material deviations" shall refer to lessening or diminishing of responsibilities contained in HSBC Group Core Terms of Reference. For the avoidance of doubt: (i) enhancements or additions to the Bank's Terms of Reference, including additions required under local rule, regulation or law and (ii) removal of optional / alternate language that is not relevant to the Bank (specifically due to the fact that the Bank is not a Principal Subsidiary), do not need to be escalated for approval.