



HSBC Bank Canada
(a Canadian chartered bank)

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2019

April 30, 2020

HSBC Bank Canada
300-885 West Georgia Street
Vancouver, British Columbia
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Canada

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EXPLANATORY NOTES

In this Annual Information Form (“AIF”) the “Bank” means HSBC Bank Canada. Except as otherwise noted, all information is given as at, or for the year ended, December 31, 2019. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Information Incorporated by Reference

Portions of the Bank’s 2019 Annual Report and Accounts (“Annual Report”), which includes management’s discussion and analysis (“MD&A”) and the consolidated financial statements for the year ended December 31, 2019, and portions of the Bank’s First Quarter 2020 Interim Report (“Interim Report”), which includes management’s discussion and analysis and the consolidated financial statements (unaudited) for the quarter ended March 31, 2020 are incorporated by reference into this AIF. The Annual Report and the Interim Report have been filed on SEDAR and can be obtained from SEDAR’s website at www.sedar.com.

Note Regarding Forward Looking Information

Certain information in this AIF may constitute “forward-looking information” that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Bank to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this AIF, forward-looking information may include words such as “seek”, “anticipate”, “estimate”, “aim”, “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this AIF. Forward-looking statements may include, but are not limited to, comments with respect to our objectives and priorities, our strategies or future actions, and the outlook for our operations.

CORPORATE STRUCTURE

HSBC Bank Canada was established as a chartered bank in 1981 and has carried on business under the provisions of the *Bank Act* (Canada) (the “Bank Act”) since that time. The Bank is a member of the HSBC group of companies (“HSBC”), whose ultimate parent company HSBC Holdings plc (“HSBC Holdings”, “HSBC Group” or together with its subsidiaries “the Group”) is headquartered in London, UK. More information on HSBC can be found on page 9 and 10 of the Annual Report. No amendment to the letters patent was required at the time of the acquisition of the business of the Bank of British Columbia in 1986. However, the letters patent of the Bank have been amended to reflect the amalgamation of the Bank with each of Midland Bank Canada, in 1988; Lloyds Bank Canada, effective in 1989; ANZ Bank Canada, in 1993; Barclays Bank of Canada, in 1996; HongkongBank Loan Corporation (the corporate successor to National Westminster Bank of Canada), in 1998; Republic National Bank of New York (Canada), in 2000; CCF Canada, in 2001; Intesa Bank Canada, in 2004 and HSBC Financial Corporation Limited and HSBC Finance Corporation Canada, in 2014. The letters patent were also amended in 1999 to reflect the change of the name of the Bank from Hongkong Bank of Canada to HSBC Bank Canada. The Bank’s head office is located at 300-885 West Georgia Street, Vancouver, British Columbia, V6C 3E9.

Details of the Bank’s principal subsidiaries are set out in note 16 to the Bank’s consolidated financial statements on page 92 of the Annual Report. The Bank owns, directly or indirectly, all of the outstanding voting shares of these subsidiaries. All of these subsidiaries are incorporated under the laws of Canada, except HSBC Securities (Canada) Inc. and HSBC Finance Mortgages Inc., which are both incorporated under the laws of Ontario. A copy of the Bank’s by-laws is available on SEDAR at www.sedar.com.

GENERAL DEVELOPMENT OF THE BUSINESS

The Bank is an integral part of one of the most international banking and financial services organizations in the world.

The value of our international network comes from our connections to the people and companies that drive economic activity across the globe. We provide products and services to meet diverse financial needs – from purchasing a new home to financing large infrastructure projects such as expansion of a regional port terminal. Our relationships reflect the geographic reach of our network and the range of customers we support.

Our network of customers provides us with significant insight into trade and capital flows across supply chains. When we bank customers on both sides of a transaction, we can help them overcome obstacles and operate more efficiently. We are uniquely positioned to be the bridge for customers, both large and small, between Canada and the rest of the world.

The Bank is focused on growth, with a strong capital, funding and liquidity position and a diversified business model.

The three HSBC global lines of business that operate in Canada are:

Commercial Banking (“CMB”) which offers a full range of commercial financial services and tailored solutions to customers ranging from small enterprises to corporates.

Global Banking and Markets (“GB&M”) which provides tailored financial services and products to major government, corporate and institutional customers worldwide. Our comprehensive range of products and solutions across capital financing, advisory and transaction banking services, can be combined and customized to meet clients’ specific objectives.

Retail Banking and Wealth Management (“RBWM”) which offers a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has an international flavor with a large suite of global investment products and other specialized services available.

For the year ended December 31, 2019, the Bank reported a profit before income tax expense of \$816 million, a decrease of \$175 million, or 17.7%, compared with \$991 million from 2018. The Bank’s profit before income tax expense was \$895 million in 2017.

On January 1, 2019, the Bank transferred certain shared services to the HSBC Global Services (Canada) Limited to meet global recovery and resolution requirements that ensure the operational continuity of critical shared services and facilitate recovery action. The transfer of people, systems and other supporting assets is not expected to have a significant impact on the overall financial results, position or operations of the Bank.

DESCRIPTION OF THE BUSINESS

HSBC Group is one of the largest banking and financial services organizations in the world.

The Bank is the leading international bank in Canada with total assets of \$106.6 billion at December 31, 2019. Established in 1981 and headquartered in Vancouver, British Columbia, we have grown organically and through strategic acquisitions to become an integrated financial services organization with more than 130 branches across the country.

Our business model is structured and focused on helping companies and individuals do business internationally with a comprehensive range of financial service, trade and investment products.

Canada is an important contributor to the HSBC Group growth strategy and a key player in the Group’s work to support customers and drive growth, leveraging its footprint across all key trade corridors, including North America, alongside the United States and Mexico, and with China. HSBC’s parent company, HSBC Holdings plc, is headquartered in London, UK. HSBC’s international network spans Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. Shares in HSBC Holdings are listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. The shares are traded in New York in the form of American Depositary Receipts.

Through an international network, HSBC provides a comprehensive range of financial services through three business lines: CMB, GB&M and RBWM.

Further details on the Bank’s overall strategy and achievements can be found in the MD&A on pages 10 and 11 of the Annual Report. Information on each of the Bank’s business lines can be found in the MD&A on page 3, 19 to 21 and 80 to 82 of the Annual Report. Information on liquidity and funding risk and capital can be found on pages 45 to 47 and 52 to 53, respectively. Information on credit risk and lending operations can be found in the MD&A on pages 31 to 45 of the Annual Report.

The Bank and its subsidiaries have approximately 5,129 employees, representing about 4,676 employees on a full time equivalent basis.

The Canadian financial services industry is highly competitive. The Bank competes directly with other Canadian chartered banks, which, as a group, are the largest financial intermediaries in Canada, as well as with other financial institutions including investment dealers, insurance companies, trust companies, credit unions, mutual fund dealers and pension funds. The Bank views its ability to utilize and leverage the international strength, reach and brand of HSBC’s integrated worldwide financial services network as its primary competitive advantage.

Social and Environmental Policies

Each year, the Bank publishes its Public Accountability Statement, called ‘HSBC Bank Canada in the Community’ which details our community investment programs, contribution to the economy and initiatives that are making it easier for our customers to reach their financial goals. This can be accessed on our website at: www.about.hsbc.ca/hsbc-in-canada/community.

Risk Factors

A discussion of the various risk factors facing the Bank is set out in the Risk section of the MD&A on pages 27 to 52 of the Annual Report and in the Risk section of the MD&A on pages 15 to 27 of the Interim Report. Additional factors related to the impact of COVID-19 are discussed below.

Impact of COVID-19 and Our Response

The COVID-19 outbreak, classified by the World Health Organisation as a pandemic, has had and continues to have, a significant impact on people, businesses, societies and economies around the world. As we prioritize the safety of our employees and customers there are a number of factors associated with the outbreak and its impact on global economies that could have a material adverse effect on financial institutions such as the Bank.

In Canada, Federal and Provincial governments have restricted mobility and social interaction beginning in March which has had a significant impact on economic activity. It remains unclear how long these restrictions will stay in place or evolve through 2020, and we continue to closely monitor developments. Many programs have been initiated by the Bank of Canada and Federal and Provincial governments to provide financial support to parts of the economy most impacted by the COVID-19 outbreak. The full extent of these relief programs, how they will operate, and impacts on our customers and the Bank continue to evolve. We are committed to playing our part in the country's economic recovery and are actively participating in these programs and helping our customers to do so wherever it is appropriate. We place great importance on supporting our customers who may be experiencing financial hardship through this unprecedented time and are working across all of our lines of business to offer them flexible solutions.

Banking in Canada is deemed an essential service and on 16 March 2020 we activated our well tested Business Continuity Plan ('BCP') to maintain services for customers across all of our lines of business. Our resiliency was aided by learnings from the earlier COVID-19 experience of HSBC operations in other parts of the world. To reduce the risk and play our part in limiting the spread and impact of this public health crisis, and by implementing new technology solutions, 93% of non-branch staff are now working from home, including many functions that were not previously equipped to do so. To address the additional stress on our people created by the isolation in this extreme environment and unusual way of operating, we have significantly increased wellness supports including for mental health and awareness raising to ensure employees take advantage. Where employees must be on site to perform critical roles, we are doing our best to maintain social distancing and have implemented precautionary measures including enhanced cleaning across all sites, protective acrylic shields and reduced hours in branch locations, and control and screening of customer entry. While provisioning for our physical sites to meet evolving requirements, we are also accommodating the significant increase in customer usage of all of our digital channels and call centres. We are frequently reaching out to retail, commercial and corporate customers to update them on our service plans and help them manage. Finally, our COVID-19 response has included a \$500,000 donation to Food Bank Canada, Breakfast Club of Canada and United Way, targeting areas of need that emerged almost immediately including food insecurity and support for the most vulnerable members of society.

The impact on financial crime risk and regulatory compliance has also been considered, and the Bank remains vigilant regarding the effectiveness of our risk controls during this challenging period when malicious activities - such as cyber-attacks and fraud - tend to increase.

Should the COVID-19 outbreak continue to disrupt economic activities globally through 2020, there could be adverse impacts to the Bank, including expected credit losses. The impact of continued lower interest rates may reduce net interest income. Other potential risks include customer credit rating migration which could negatively impact our risk-weighted assets and capital position, and increased liquidity demands from customers.

The Bank has a strong capital, funding and liquidity position and we are looking to continue to support the Canadian economy, our customers and wider society.

DIVIDENDS

Dividends on our shares declared in each of the last three years were as follows:

| | 2019 | 2018 | 2017 |
|--------------------------------------|---------|---------|---------|
| Common shares (\$million) | 430 | 810 | 235 |
| Preferred shares (\$ per share) | | | |
| Class 1, Series C ¹ | - | - | 1.27500 |
| Class 1, Series D ¹ | - | - | 1.25000 |
| Class 1, Series G | 1.00000 | 1.00000 | 1.00000 |
| Class 1, Series I ² | 1.15000 | 1.23250 | - |
| Class 1, Series K ³ | 0.35560 | - | - |

¹ Preferred shares – Class 1, Series C and D were redeemed on 31 December 2017.

² Preferred shares – Class 1, Series I were issued on 7 December 2017; initial dividends were declared during the first quarter of 2018 and paid in accordance with their terms in the usual manner on 31 March 2018 or the first business day thereafter.

³ Preferred shares – Class 1, Series K were issued on 27 September 2019; initial dividends were declared during the fourth quarter of 2019 and paid in accordance with their terms in the usual manner on 31 December 2019 or the first business day thereafter.

Information about dividends is set out in the MD&A on page 54 and note 8 of the Bank’s consolidated financial statements on page 80 of the Annual Report.

DESCRIPTION OF CAPITAL STRUCTURE

General Description

The Bank’s capital structure is determined by certain minimum levels of regulatory capital required by Canada’s banking regulator, the Office of the Superintendent of Financial Institutions (“OSFI”). Reference should be made to the Capital Management section of the MD&A on page 52 of the Annual Report. Details of each class of share in the capital of the Bank are set out in note 26 to the Bank’s consolidated financial statements in the Annual Report on page 99. Details relating to subordinated debt and debentures, which also form part of the Bank’s regulatory capital structure, are set out in note 23 to the Bank’s consolidated financial statements on page 94 of the Annual Report. There have been no issues of subordinated indebtedness subsequent to December 31, 2019. The Bank issued 50,000,000 common shares for \$500m on March 30, 2020.

Voting Securities and Principal Holders of Voting Securities

The common shares are the Bank’s only voting securities. There were 498,668,000 common shares outstanding as at December 31, 2019, and are currently 548,668,000 common shares outstanding. All of the Bank’s common shares are held by HSBC Overseas Holdings (UK) Limited, a direct subsidiary of HSBC Holdings.

Credit Ratings

The Bank’s credit ratings are as follows:

| | Standard and Poor’s (“S&P”) | DBRS® | Fitch Ratings (“Fitch”) | Moody’s Investors Service (“Moody’s”) |
|--------------------------|--------------------------------|--------------|----------------------------|--|
| Short-term instruments | A-1+ | R-1 (middle) | F1+ | Prime-2 |
| Deposits and senior debt | AA- | A (high) | A+ | A3 |
| Subordinated debt | A- | A | A- | n/a |
| Outlook | Negative | Negative | Negative | Stable |

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an entity’s financial instruments and the likelihood of repayment and of the capacity and willingness of an entity to meet its financial obligations in accordance with the terms of those obligations. A description of the rating categories for each of the ratings in the table above is set out below. None of the ratings should be construed as a recommendation to

buy, sell or hold the securities or other instruments of the Bank. Any of the ratings may be revised or withdrawn at any time by the relevant rating organization.

S&P

S&P has different rating scales for short-term instruments and long-term debt. S&P uses “+” or “-” or “High” or “Low” designations to indicate the relative standing of instruments within a particular rating category. The absence of either “+” or “-” or a “High” or “Low” indicates that the rating is in the middle of that category.

The Bank’s credit ratings influence its ability to secure cost-efficient wholesale funding. Investment grade ratings were confirmed by S&P in December 2019.

The “A-1+” rating assigned by S&P to the Bank’s short-term instruments is the highest of six rating categories and indicates S&P’s view that the Bank’s capacity to meet its financial commitment on short-term instruments is extremely strong.

The “AA-” rating assigned by S&P to the Bank’s deposits and senior debt and the “A-” rating assigned to its subordinated debt fall within the top three of eleven rating categories for long-term debt. A rating category of “A” (including “A-”) or better indicates that the obligor’s capacity to meet its financial commitments is strong.

DBRS®

DBRS® has different rating scales for short-term instruments and long-term debt. Each rating category is denoted by the subcategories “high”, “middle” and “low” which reflects the relative strength within that category. In July 2019, DBRS® confirmed the investment grade ratings. In February 2020, DBRS® revised the trend on all ratings to Negative from Stable.

The “R-1 (middle)” rating assigned by DBRS® to the Bank’s short-term instruments is within the highest of six rating categories and indicates debt of superior quality and an entity possessing very high ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels and profitability that is both stable and above average.

The “A (high)” rating assigned by DBRS® to the Bank’s deposits and senior debt and the “A” rating assigned to its subordinated debt fall within the third highest category of the ten rating categories for long-term debt. Under the DBRS® scale, debt securities rated “A” (including “A (high)”) are of good credit quality and protection of interest and principal is substantial.

Fitch Ratings

Fitch has different rating scales for short-term instruments and long-term debt. Within some of the rating categories, Fitch may append the rating with the modifiers “+” or “-” to denote relative status within major rating categories. In April 2020, Fitch revised the outlook to Negative from Stable.

The “F1+” rating assigned by Fitch to the Bank’s short-term instruments is the highest of seven rating categories and indicates the strongest intrinsic capacity for timely payment of financial commitments, with an added “+” to denote any exceptionally strong credit feature.

The “A+” rating assigned by Fitch to the Bank’s deposits and senior debt and the “A-” rating assigned to its subordinated debt fall within the top three of eleven ratings categories. A rating category of “A” (including “A-”) or better indicates strong capacity for payment of financial commitments.

Moody's Investors Service

Moody's has different rating scales for short-term instruments and long-term debt. For long-term debt, Moody's uses modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. In March 2020, Moody's affirmed the investment grade ratings.

The "Prime-2" rating assigned by Moody's to the Bank's short-term instruments is the second of four rating categories and indicates Moody's view that the Bank's ability to repay short-term debt obligations is strong.

The "A3" rating assigned by Moody's to the Bank's deposits and senior debt falls within the top three of nine rating categories for long-term debt. A rating category of "A3" indicates obligations are judged to be upper-medium grade and are subject to low credit risk.

DIRECTORS AND EXECUTIVE OFFICERS

The following tables set forth the name, province or state and country of residence, position held with the Bank and the principal occupation of each of the current directors and executive officers of the Bank at April 30, 2020.

Directors

| <u>Name, Province or State and Country of Residence</u> | <u>Principal Occupation During the Past Five Years and Position with the Bank</u> | <u>Director Since</u> |
|---|--|------------------------------|
| JUDITH J. ATHAIDE Alberta, Canada ^(a) | President and Chief Executive Officer Cogent Group Inc. Non-Executive Director, HSBC Bank Canada | May 2017 |
| KAREN L. GAVAN Ontario, Canada ^(a) | Corporate Director ^(b) Non-Executive Director, HSBC Bank Canada | April 2019 |
| BETH S. HOROWITZ Ontario, Canada ^(a) | Corporate Director ^(c) Non-Executive Director, HSBC Bank Canada | September 2009 |
| MICHAEL J. KORENBERG British Columbia, Canada ^(a) | Corporate Director Non-Executive Director, HSBC Bank Canada | May 2017 |
| ROBERT G. McFARLANE British Columbia, Canada ^(a) | Corporate Director Non-Executive Director and Chair of the Audit, Risk and Conduct Review Committee, HSBC Bank Canada | February 2015 |
| SAMUEL MINZBERG Québec, Canada ^(a) | Counsel Davies Ward Phillips & Vineberg ^(d) Non-Executive Director and Chairman of the Board, HSBC Bank Canada | January 2001 |
| STEPHEN MOSS United Kingdom | Group Managing Director, Regional Chief Executive for Europe; the Middle East, North Africa and Turkey; Latin America; Canada HSBC Holdings plc Director, HSBC Bank Canada | March 2020 |

| <u>Name, Province or State and Country of Residence</u> | <u>Principal Occupation During the Past Five Years and Position with the Bank</u> | <u>Director Since</u> |
|--|--|------------------------------|
| SANDRA J. STUART British Columbia, Canada | Group General Manager, President and Chief Executive Officer, HSBC Bank Canada | March 2011 |

Notes:

- (a) Member of Audit, Risk and Conduct Review Committee.
- (b) Karen Gavan was formerly the Chief Executive Officer of Economical Insurance, from 2011 to 2016.
- (c) Beth Horowitz was on the Board of Directors of Carrot Insights from December 2017 to December 2019. Carrot Insights is a small, early-stage privately-held tech company which entered bankruptcy proceedings in 2019 and changed ownership.
- (d) Samuel Minzberg is currently Counsel to the law firm Davies Ward Phillips & Vineberg, and was formerly Senior Partner.

One of HSBC Bank Canada's Directors also serves on the Boards of Directors of Mackenzie Financial Corporation and Mackenzie Financial Capital Corporation. At this time, no existing conflict of interest has been identified. However, should a conflict arise from sitting on these Boards, HSBC Bank Canada has internal controls and procedures in place to address Directors' disclosure of potential or actual conflicts of interest.

Each director will serve as a director for a 1, 2 or 3 year term or until his or her successor is elected or appointed. Directors may also be reappointed following the expiry of their terms.

Executive Officers

| <u>Name, Province and Country of Residence</u> | <u>Principal Occupation During the Past Five Years and Position with the Bank</u> |
|---|--|
| SANDRA J. STUART - British Columbia, Canada | Group General Manager, President and Chief Executive Officer |
| GERHARDT SAMWELL - British Columbia, Canada | Chief Financial Officer |
| LINDA SEYMOUR - Ontario, Canada | Executive Vice-President and Country Head of Commercial Banking |
| CAROLINE TOSE ^(a) - British Columbia, Canada | Chief Operating Officer |
| STEPHEN L. O'LEARY - British Columbia, Canada | Chief Risk Officer |
| KIMBERLY FLOOD - Ontario, Canada | Senior Vice-President and Head of Communications |
| LILAC BOSMA - British Columbia, Canada | General Counsel |
| GEORGIA STAVRIDIS - British Columbia, Canada | Senior Vice-President and Head of Financial Crime Compliance |
| LORENZO (LARRY) TOMEI - Ontario, Canada | Executive Vice-President and Head of Retail Banking and Wealth Management |
| JOSÉE TURCOTTE - Ontario, Canada | Senior Vice-President, Corporate Secretary and Head of Governance |
| SOPHIA S. TSUI - British Columbia, Canada | Senior Vice-President and Chief Auditor |
| SANTOKH BIRK - British Columbia, Canada | Head of Strategy & Planning |
| KIM TOEWS - British Columbia, Canada | Executive Vice-President and Head of Human Resources |
| LISA DALTON - British Columbia, Canada | Chief of Staff, Office of the CEO |
| KIM HALLWOOD - British Columbia, Canada | Head of Corporate Sustainability |

(a) Caroline Tose was appointed Chief Operating Officer effective January 6, 2020, replacing Chris J. Hatton in this role.

During the past five years, all of the directors and executive officers of the Bank have been associated in various capacities with the Bank, affiliates thereof or the companies or organizations indicated opposite their names in the table above except: Lisa Dalton, who from 2010 to 2015 provided legal and mediation consulting services; Josée Turcotte, who was Secretary to the Ontario Securities Commission prior to joining the Bank in 2016; Larry Tomei, who spent the 22 years prior to joining the Bank in 2016 at CIBC, most recently as Senior Vice President and previously in senior roles including heading the national sales and service team for retail distribution, heading sales for private wealth management, and leading the institution's mutual fund arm; and Gerhardt Samwell, who was the Chief Accounting Officer for the Royal Bank of Canada prior to joining the Bank in 2017.

As of December 31, 2019, the directors and officers of the Bank as a group beneficially own, directly or indirectly, or exercise control or direction over no securities of any class of the Bank.

EXECUTIVE COMPENSATION

Compensation discussion and analysis

The following compensation discussion and analysis summarizes the principles, objectives and factors considered in evaluating and determining the 2019 total compensation of the Bank's senior executive officers, including specific compensation information relating to our Group General Manager, President and Chief Executive Officer ("CEO") Sandra J. Stuart, our Chief Financial Officer ("CFO") Gerhardt Samwell, as well as the next three most highly compensated executives: Jason Henderson, Executive Vice President ("EVP") & Managing Director ("MD") and Head of Global Banking and Markets (to January 6, 2020), Linda Seymour, EVP and Country Head of Commercial Banking, and Larry Tomei, EVP and Head of Retail Banking and Wealth Management. Collectively, these officers are referred to as the Named Executive Officers ("NEOs").

Oversight of Compensation Decisions

Remuneration Committee

HSBC Holdings Board of Directors has a Group Remuneration Committee ("RemCo" or the "Committee") which oversees HSBC's reward principles. All members of RemCo meet regularly and are independent non-executive Directors of HSBC Group.

The Committee is responsible for setting the principles, parameters and governance of the Group's remuneration framework for all employees, and the remuneration of executive Directors and other senior Group employees. The Committee regularly reviews the framework in the context of consistent and effective risk management, and the regulatory requirements of multiple jurisdictions. A copy of the Committee's terms of reference can be found on our website at www.hsbc.com/our-approach/corporate-governance/board-committees.

To ensure the alignment of remuneration and risk:

- The Group Chief Risk Officer attends all Committee meetings to inform the Committee of risk related issues across the Group so they are considered by the Committee in applying the remuneration policy and making remuneration decisions. The Group Chief Risk Officer also updates the Committee on the Group's performance against the Risk Appetite Statement, which describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. The Committee uses these updates in applying the remuneration policy and considering the risk related adjustments made to the variable pay pool, to ensure that return, risk and remuneration are aligned.
- The Committee consults with the Group Risk Committee on the alignment of risk and remuneration and on risk adjustments to be applied in setting annual variable pay pool.
- The Financial System Vulnerabilities Committee ("FSVC") provide input to the Committee's decision of any adjustment for risks that are under the FSVC's oversight.

- The Committee also considers material issues raised by the Group Audit Committee (“GAC”) resulting from the work of Internal Audit, including communication of relevant internal audit findings on remuneration matters. The Committee provides feedback to the GAC on these matters.

The Committee reviews its terms of reference annually and its own effectiveness as well as the quality of information it receives and recommends any necessary change.

As an indirect wholly owned subsidiary of HSBC Holdings, the Bank adopts the remuneration policy established by HSBC Group as it fits the purpose in Canada, and our Group General Manager, President and Chief Executive Officer, Ms. Stuart, is one of the Group General Managers whose total compensation is reviewed and approved by RemCo.

Board of Directors

The Bank’s Board of Directors (the “Board”) plays an important role in the determination of remuneration. The Board meets annually to review and approve the compensation levels for the CEO and senior executive officers in the organization, including an assessment of their performance and compensation relative to the marketplace. Recommendations to the Committee are made with the concurrence of the Board.

The following section provides some additional information on the compensation approval framework, the compensation elements and the compensation levels for the NEOs, and senior executive officers more broadly.

Compensation Approval Framework

HSBC Group has a standard approval framework for total compensation decisions across all business lines and functions to ensure approvals of compensation decisions are handled efficiently and in adherence with established governance and control protocols. Decisions follow the framework which outlines the delegation of authority to approve pay packages down the organization. All compensation approvals are governed by the nature of the proposal (i.e. what compensation package is being proposed), whether the individual has been identified as a Material Risk Taker (“MRT”), as well as Global Career Band (“GCB”). Through the framework, the approval of pay is generally required from the functional manager of the proposing manager and in some instances, the functional manager two levels up of the proposing manager. Compensation proposals for the NEOs may require further approvals subject to the type and cost of the proposal and their GCB level including approval from their functional managers, the Group Head of Performance & Reward, Group Chief HR Officer, Group Chief Executive Officer, and/or the Committee, as appropriate. Compensation proposals which exceed USD3 million require all of the aforementioned approvals including Committee approval.

Material Risk Takers and the UK’s Prudential Regulation Authority’s (“PRA”) Remuneration Rules (the “PRA Rules”)

As a UK- headquartered firm under the provisions of the PRA Rules, HSBC Group is required to identify individuals who are considered to be “Identified Staff and Material Risk Takers” (collectively referred to as “MRTs” throughout this document) based on qualitative and quantitative criteria specified in the European Union Regulatory Technical Standard (“RTS”) 604/2014 and other criteria applied by HSBC.

HSBC Group has developed a methodology for identifying individuals who fall under the quantitative or qualitative criteria specified in the RTS. Additional MRTs are also identified using HSBC Group’s own internal criteria that is based on roles and professional activities performed by individuals, and/or their total compensation level for the performance year. In addition to identifying MRTs under the PRA Rules, HSBC Group also identifies individuals to whom remuneration rules under any applicable local or sectorial rules are to be applied.

The Bank, as a subsidiary of HSBC Group, is expected to comply with the requirements set out in the PRA Rules and any other local or sectorial rules that apply to HSBC Group, including the requirements on how variable pay awards should be structured and what proportion of variable pay awards should be deferred.

For 2019, all NEOs are considered MRTs.

HSBC Bank Canada's Remuneration Principles

Our remuneration strategy is designed to competitively reward the achievement of long-term sustainable performance and to attract and motivate the best people, who are committed to maintaining a long-term career with the Group while performing their role in the long-term interests of our stakeholders. We believe that remuneration is an important tool for instilling the right behaviours, and driving and encouraging actions that are aligned to organizational values and expectations.

Our remuneration strategy, as approved by the Group Remuneration Committee, is based on the following principles:

- An alignment to performance at all levels (individual, business and Group) taking into account both 'what' has been achieved and 'how' it has been achieved. The 'how' helps ensure that performance is sustainable in the longer term, consistent with HSBC's values, conduct and risk and compliance standards.
- Being informed, but not driven by, market position and practice. Market benchmarks are sourced through independent specialists and provide an indication of the range of pay levels and employee benefits provided by our competitors.
- Considering the full-market range when making pay decisions for employees, taking into account the individual's and the Group's performance in any given year. An individual's pay will vary depending upon their performance.
- Compliance with relevant regulation across all of our countries and territories.

Based on these principles, our approach to determining remuneration is based on the following objectives:

- Offering our employee a competitive total reward package. This includes market competitive fixed pay levels, which ensure our employees are able to meet their basic day-to-day needs.
- Maintaining an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and the market.
- Ensuring variable pay is awarded on a discretionary basis and dependent upon Group, business and individual performance.
- Offering employees benefits that are valued by a diverse workforce, appropriate at the local market level and support HSBC's commitment to employee well-being.
- Promoting employee share ownership through variable pay deferral or voluntary enrolment in an all employee share plan.
- Linking reward packages to performance and behaviour with no bias towards an individual's ethnicity, gender, age or any other characteristic.

Elements of Compensation

Total compensation is comprised of fixed and variable pay, and is the key focus of our compensation framework, with variable pay differentiated by performance and with adherence to HSBC values. We set out below the key features and design characteristics of our compensation framework which apply on a Group-wide basis, subject to compliance with local laws:

- **Fixed pay**

The purpose of fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This may include salary, fixed pay allowance, and other cash allowances in accordance with local market practice.

When establishing or changing base salaries and fixed pay allowances for executives, consideration is given to compensation paid for similar positions (size, scope and complexity) at comparable companies, generally targeting the 50th percentile. Other factors considered include: specific job responsibilities, length of time in current position, individual pay history, potential for future advancement, and comparison to comparable internal positions (internal equity). Individual base salary is benchmarked on an annual basis, and may be adjusted based on changes in the

competitive market. Consideration is also given to maintaining an appropriate ratio between fixed and variable pay as components of total compensation.

In 2019, Mses. Stuart and Seymour and Messrs. Henderson and Tomei received fixed pay allowances in addition to their regular base salary. Mr. Samwell did not receive a fixed pay allowance.

- ***Annual incentive***

All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined on the basis of individual performance against performance objectives for the year (which are aligned to the Group's strategic actions), a global risk objective, and adherence to HSBC's values and business principles.

In addition, there is a process to identify behavioral transgressions for all employees during the year to ensure compliance with Group policies and procedures, and other expected behaviors. Such transgressions are taken into consideration in determining ex-ante adjustments to variable pay.

The annual incentive represents a higher proportion of total compensation for more senior employees and will be more closely aligned to Group and business performance as seniority increases.

Awards are in the form of cash and/or shares. For MRTs, a portion of the annual incentive award may be deferred and vests over a period of three or five years in accordance with the PRA Rules. For MRTs, at least 50% of the total variable pay award (both deferred and non-deferred component) is generally delivered in shares and subject to a post-vesting retention period of up to one year.

- ***Benefits & perquisites***

Benefits and perquisites are provided to protect HSBC and its executives from certain business risks and to help executives be more productive. These are fixed and do not vary with performance. Provision of benefits in accordance with local market practice ensures market competitiveness. Benefits may include (but are not limited to) the provision of pensions, health, dental and life insurance.

Senior executive officers participate in the same benefits choices program as all other employees of the Bank. To complement the benefits choices plan, senior executive officers also participate in the Executive Choices program. The Executive Choices program provides an annual Executive Choices Account ("ECA"). The value of the ECA ranges from \$17,000 to \$45,000 depending on role. Senior executive officers are also eligible to receive employer paid-parking benefit. The cost of parking varies by location and is taxable based on Canada Revenue Agency guidelines.

- ***Shareholding requirement***

Effective January 1, 2019, the minimum shareholding requirement of 25,000 HSBC Holdings shares for Ms. Stuart as a Group General Manager was removed by the Group Remuneration Committee, as it was felt that unvested share awards provide sufficient alignment to shareholders.

The Bank's directors or NEOs are not permitted to purchase financial instruments such as prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities of the HSBC Holdings granted as compensation or held, directly or indirectly, by the NEO or director.

Compensation governance structure

Certain governance and disclosure requirements for compensation have been mandated by the Basel Committee on Banking Supervision's Pillar III requirements which have been adopted by OSFI as part of recommendations from the Financial Stability Review Board on compensation.

The Bank's approach is to define "Senior Management" as consisting of members of the Executive Committee ("ExCo"), consistent with the Bank's approach to identifying Senior Management for other disclosure. ExCo is the highest level of committee responsible for day-to-day management, comprised of the most senior officers of the Bank

including the heads of business lines and functions. In 2019, this included 16 employees. We define MRTs as those identified under the PRA Rules by HSBC Holding plc. In 2019, there were 9 MRTs included in ExCo.

Compensation Practices Promoting Sound and Effective Risk Management and Supporting our Business Objectives

Under our compensation framework, compensation decisions are made based on a combination of:

- Business results;
- Performance against strategic objectives set out in performance scorecards;
- Adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards;
- Individual performance; and
- Local market position and practice.

Key features of our compensation framework that enable us to achieve alignment between risk and reward include:

- ***Scorecards***

Assessment of performance on clear and relevant objectives set within a performance scorecard framework. Global Standards including risk and compliance measures form part of the scorecard for our most senior executive officers, including all NEOs.

- ***Group variable pay pool calculation***

Fines and penalties are automatically included in the Committee's definition of profit. Performance against metrics in the Group Risk Appetite Statement and conduct framework is taken into consideration.

- ***Deferral of variable pay***

A Group-wide deferral approach is applicable to all employees across the Group, where deferral is applied to annual incentive award above a certain level.

Deferral of variable pay into HSBC shares and/or other instruments tie recipients to the future performance of the Group and business units.

For MRTs, a minimum of 40% of the total variable pay award is deferred into restricted share units and deferred cash which vest pro-rata over three or five years on each anniversary of the award date. This increases for high variable pay amounts, in line with regulatory requirements.

In 2019, Ms. Stuart and Seymour had 60% of their variable pay award deferred for five years. Messrs. Henderson and Tomei had 60% of their variable pay award deferred for three years. Mr. Samwell had 40% of his variable pay award deferred for three years.

As deferred restricted share units granted to MRTs are not entitled to accrue dividend equivalents during the deferral period, the number of shares to be awarded will be determined taking into consideration a share price discounted for expected dividend yield.

- ***Malus/adjustment policy***

The malus/adjustment policy allows cancellation/reduction of unvested deferred variable pay awards. Longer deferral period under PRA Rules increases the time period over which malus can be applied. This is in addition to our in-year variable pay adjustments and other disciplinary actions that can be taken under our Employee Recognition and Conduct Framework.

- ***Clawback policy***

Subject to compliance with local labour laws, the clawback policy allows us to recoup/reclaim paid awards in certain circumstances as defined by the PRA for a period of up to seven-years from grant. As previously mentioned, the

Board is responsible for approving performance-based compensation by reference to corporate goals and objectives for the CEO, direct reports of the CEO and MRTs, and for recommending the reduction/cancellation or clawback of variable pay compensation previously awarded as required.

Based on 2019 performance, no malus or clawback was applied.

Competitive Compensation Levels and Benchmarking

External Benchmarking

Benchmarking provides an external reference to similarly situated executives in our comparator group but does not replace the analyses of internal pay equity and individual performance of the senior executive officers that HSBC also considers when making total compensation decisions. HSBC strives to maintain a total compensation program that attracts and retains qualified executives, with levels of total compensation that differ based on performance.

In 2019, HSBC Group approached Willis Towers Watson to provide market information for use during the annual pay review process. Willis Towers Watson was originally retained for this purpose in 2009. The Bank also approached McLagan Partners, Inc., for additional market information for the NEOs. McLagan Partners, Inc. was originally retained for this purpose in 2018.

Peer Group

HSBC Group uses a select peer group when determining competitive market practices for the most senior positions. HSBC Group reviews the members of the peer group annually with input from the external executive compensation consultants, adding or subtracting companies as necessary to ensure the companies in the group are representative of our industry, and compare to us in relative size and complexity of business operations.

In 2019, the CEO's peer group comprised of our global peers with comparable business operations in Canada. Most of these organizations are publicly held companies that compete with the Bank for business, customers and executive talent. In 2019, the following peer companies were considered:

| | | |
|-----------------|-----------------|----------------------|
| Bank of America | Credit Suisse | Lloyds Banking Group |
| Barclays | DBS | Morgan Stanley |
| BNP Paribas | Deutsche Bank | Standard Chartered |
| Citigroup | JP Morgan Chase | UBS |

Each NEO role was matched to the most appropriate benchmark role, i.e. banking sector, companies of relative size of operations, etc. to ensure the relevance of the market data.

Executive Compensation-Related Fees and Other Fees

The aggregate fees paid to Willis Towers Watson for services provided apportioned to the Bank was approximately \$1,900 for 2019 and \$2,800 for 2018. No other services were provided to assist in the determination of the senior executive officers' compensation.

Internal Benchmarking

The Bank's senior executive officers total compensation is reviewed internally at both local and global levels to ensure alignment across countries, business lines and functions, and also takes into consideration individual responsibilities, size and scale of the businesses the executives lead, and the contributions of each executive, along with geography and local labour markets. These factors are then calibrated for business and individual performance within their business environment and against the respective peer group. Further, the Board reviews and approves senior executive officers pay for the Canadian entity.

Evaluating 2019 Performance

Achievement of Objectives

Our most senior executive officers set objectives using a performance scorecard framework in which objectives are separated into two categories: financial and non-financial. Objectives are also aligned to strategic priorities including 1) Deliver growth from areas of strength, 2) Build a bank for the future that puts the customer at the centre, and 3) Empower our people. In performance scorecards, certain objectives have quantitative standards that may include meeting designated financial performance targets for the company, or the executive's function. Qualitative objectives may include key strategic business initiatives, including remediation goals, risk management, or projects for the company or executive's function. Quantitative and qualitative objectives helped inform 2019 total compensation decisions. Financial objectives, as well as other objectives relating to efficiency and risk mitigation, customer development and the productivity of human capital are all measures of performance that may influence reward levels. Employees are assessed on performance ratings (Top Performer, Strong Performer, Good Performer and Inconsistent Performer), and values-aligned behavior ratings (Role Model, Strong, Developing and Unacceptable).

In addition, there is a process to identify behavioural transgressions for all employees during the year. These reviews determine whether there are any instances of non-compliance with Group policies and procedures (including risk), non-adherence to HSBC values and other behaviours. Non-compliance is escalated to Senior Management, the Board and/or RemCo, where appropriate, for consideration in variable pay decisions. Consideration is given to whether adjustments, malus and/or clawback should apply, and in certain circumstances whether employment should continue.

Determination of pay awards for 2019 performance considered the overall achievement of objectives. To make that evaluation, the Committee and the Board received reports from management on the achievement of 2019 corporate, business unit and individual objectives. Following this assessment, the Committee, the Board and/or other Senior Management members approved or revised the original recommendations.

Assessment of Individual Performance

In addition to the quantitative and qualitative performance measures outlined above, the performance of each NEO was evaluated against an individual performance scorecard which includes financial and non-financial objectives specific for the business or function which they led. Each executive's individual performance and contribution is considered in determining the amount of discretionary variable awards to be paid each year.

Sandra J. Stuart, Group General Manager, President and Chief Executive Officer

Under Ms. Stuart's leadership, the Bank delivered as expected financial results, profit before income tax for 2019 was \$816 million, down from 2018 but in line with expectations.

Ms. Stuart made significant progress on executing the final year of our most recent three-year Country Strategic Plan, having met our financial, efficiency and growth goals, which included growing revenue and market share. Ms. Stuart also set out the priorities for the Bank's next three-year strategic plan, which includes tapping into emerging opportunities in fast growing segments, offering best in class products and services, commercialising investments in digital capabilities, continuing to put customers at the heart of everything we do, and developing and empowering our people.

The Bank worked closely with our customers to navigate trade policy uncertainty, demonstrating double digit growth in cross border revenues in the Greater China and North American trade corridors. Ms. Stuart worked closely with colleagues in these corridors to ensure seamless cross border service for our clients.

While continuing to make strategic investments, Ms. Stuart ensured a strong cost discipline across the organization. The Bank's cost decreased by 0.6% year over year while revenue increased in our RBWM and CMB business lines and was down only slightly in GB&M.

In Commercial Banking, focus on sales effectiveness through technology, people, marketing, customer solutions and sector and product strategies contributed to strong results. In RBWM, we continued to grow our market share by focusing on market leading products and services and recording strong momentum in customer acquisitions and deepening current relationships. GB&M achieved strong revenue growth in key trade corridors, including North America and Greater China, and was Top 3 in Canada's Green, Social and Sustainable Bonds league table.

Ms. Stuart also made significant progress in continuing to uplift our Financial Risk compliance program with a strong tone from the top, as well as enhancing the entity-wide focus on effective management of Operational Risk.

Gerhardt Samwell, Chief Financial Officer

All segments under the responsibility of Mr. Samwell, Chief Financial Officer were effectively managed, with finance expenses tracking favourably against plan, and entity operating expenses subject to strong cost discipline. Notable contributions to the Bank include continuation of rolling out cloud technology to manage liquidity, testing resiliency of the capital and liquidity positions under stress, and maturing the wholesale funding program.

Mr. Samwell also ensured the accuracy and timely delivery of all regulatory, financial, and tax reporting. He oversaw compliance with policies and procedures to maintain a strong internal control framework over financial reporting. The Bank ended the year in a strong capital position, with a Common Equity Tier 1 ratio of 11.3% and leverage ratio of 4.9%, and a strong average liquidity ratio of 140% in the fourth quarter of 2019. The Bank delivered solid results in 2019, include Return on Average Common Equity of 11.3% for the year ended December 31, 2019.

Jason Henderson, EVP & MD, Head of Global Banking & Markets

Mr. Henderson delivered strong results in 2019, successfully representing all areas of his balanced scorecard. Notable accomplishments include year-over-year gains in client business. Global Banking performance was particularly strong in Multinationals. There was continued growth in Rates and Credit trading, increased penetration of Payments and Cash Management, Global Trade and Receivables Finance, and continued growth of core trade corridor transactions.

Mr. Henderson was a member of the Bank's Board of Directors and is actively involved in our Employee Resource Groups. He serves as a mentor for staff across the Bank and region. In 2020, Mr. Henderson was appointed Head of Global Markets, Americas effective January 7, 2020.

Linda Seymour, EVP, Country Head of Commercial Banking

Despite an uncertain economic and geopolitical environment in 2019, under Ms. Seymour's leadership, the Canadian CMB business exceeded revenue growth plans while maintaining effective cost control and efficient capital deployment to support asset growth.

Ms. Seymour kept the business focused on growing revenue and market share by focusing on strategic priorities, deepening existing client relationships, and growing key trade corridors. To support Canadian companies in meeting their environmental and sustainability goals, CMB launched Green Finance products, the first of their kind in Canada aligned to the Loan Market Association's Green Loan Principles.

Throughout 2019, Ms. Seymour continued to focus on delivering a customer centric framework and offering the products and services that enable Canadian customers' access to international markets, as recognized by HSBC's position as the #1 Trade Finance Bank in Canada for the third year in a row. In addition, ongoing delivery of digital and tactical solutions drove improvements in key customer journeys in the business.

The CMB business continued to successfully meet all milestones related to regulatory transformation and implementation of its financial crime and regulatory compliance frameworks. Throughout 2019, momentum was

maintained on the significant progress made in 2018 to further embed heightened standards for customer due diligence, reflecting the mature culture of financial crime and regulatory compliance in the business.

Larry Tomei, EVP, Head of Retail Banking and Wealth Management

Mr. Tomei is successfully leading the transformation of RBWM to a customer need focused retail bank in the competitive Canadian financial services market. Under his leadership, RBWM achieved record net sales in 2019 and continued to deliver strong results in a challenging market and business environment.

Throughout 2019, Mr. Tomei kept the business focused on the customer, ensuring market leading innovative and competitive product offerings. Strategic investments in our distribution capabilities and processes helped the business enhance customer experience as reflected in improving client recommendation index. As a result of these initiatives, RBWM welcomed more than 61,000 customers to the bank during the year.

Cost control and disciplined capital and risk management continued to be a top priority for the business and Mr. Tomei in 2019. Loan losses remained relatively low and costs remained in plan.

SUMMARY COMPENSATION TABLE

The following tables and narrative discuss the total compensation awarded to, earned by, or paid as of December 31, 2019 to our NEOs.

| Name and principal position (a) | Year (b) | Salary (\$) (c) | Share Based Awards (\$) (d) | Option-Based Awards (\$) (e) | Non-equity incentive plan compensation (\$) (f) | | Pension value (\$) (g) | All other Compensation ⁽⁴⁾ (\$) (h) | Total Compensation (\$) (i) |
|---|-------------|-----------------------|--------------------------------------|---------------------------------------|--|---|------------------------------|---|--------------------------------------|
| | | | | | Annual Incentive Plan (f1) | Long-Term Incentive Plans ⁽³⁾ (f2) | | | |
| Stuart, Sandra J., Group General Manager, President and Chief Executive Officer | 2019 | \$1,225,000 | \$901,286 | Nil | \$901,286 | Nil | \$103,446 | \$56,762 | \$3,187,780 |
| | 2018 | \$1,225,000 | \$901,285 | Nil | \$901,285 | Nil | \$388,118 | \$57,488 | \$3,473,177 |
| | 2017 | \$1,225,000 | \$694,348 | Nil | \$694,348 | Nil | \$109,158 | \$56,513 | \$2,779,367 |
| Samwell, Gerhardt ⁽⁵⁾ Chief Financial Officer | 2019 | \$330,000 | \$92,760 | Nil | \$92,760 | Nil | \$49,050 | - | \$564,570 |
| | 2018 | \$297,692 | \$132,515 | Nil | \$132,515 | Nil | \$38,879 | - | \$594,678 |
| | 2017 | \$57,115 | \$24,000 | Nil | \$216,000 | Nil | \$3,427 | - | \$300,542 |
| Henderson, Jason ⁽⁶⁾ EVP & MD, Head of Global Banking & Markets | 2019 | \$1,464,123 | \$797,377 | Nil | \$797,377 | Nil | \$22,655 | - | \$3,081,531 |
| | 2018 | \$1,487,000 | \$1,380,098 | Nil | \$880,098 | Nil | \$21,655 | - | \$3,768,851 |
| | 2017 | \$1,487,000 | \$893,792 | Nil | \$893,792 | Nil | \$19,367 | - | \$3,293,951 |
| Seymour, Linda EVP, Country Head of Commercial Banking | 2019 | \$784,380 | \$500,000 | Nil | \$500,000 | Nil | \$737,707 | - | \$2,522,087 |
| | 2018 | \$626,772 | \$474,200 | Nil | \$474,200 | Nil | \$699,867 | - | \$2,275,039 |
| | 2017 | \$494,372 | \$408,390 | Nil | \$408,390 | Nil | \$355,941 | - | \$1,667,093 |
| Tomei, Larry EVP, Head of Retail Banking and Wealth Management | 2019 | \$670,000 | \$449,437 | Nil | \$449,437 | Nil | \$42,578 | - | \$1,611,452 |
| | 2018 | \$661,538 | \$444,953 | Nil | \$444,953 | Nil | \$92,166 | - | \$1,643,610 |
| | 2017 | \$450,000 | \$415,000 | Nil | \$415,000 | Nil | \$141,353 | - | \$1,421,353 |

(1) For Ms. Stuart, Mr. Henderson and Ms. Seymour, their salaries include a fixed pay allowance paid in cash. For Mr. Tomei, his salary includes a fixed pay allowance paid in cash for 2018 and 2019.

(2) Values are the dollar amounts designated to purchase HSBC Holdings restricted shares at or about the time of release. For deferred share awards, the dollar amounts are equal to the fair value determined in accordance with IFRS 2, amortized over the expected vesting period, generally over three to seven years. Effective 2017, restricted shares are no longer eligible to accrue dividends during the deferral period under new European Banking Authority (EBA) Guidelines.

(3) No NEOs were awarded a long-term incentive award in 2017-2019.

(4) Dashes in column (h) reflect perquisites that have been paid but are not reportable as, in aggregate, they are worth less than \$50,000 and less than 10% of a NEO's total salary, which has been interpreted as base salary plus fixed pay allowance reported in column (c).

(5) In October 2017, Mr. Samwell joined HBSB as the VP and Chief Accounting Officer and received a share buyout of the equivalent of \$420,006 at the time of hire. In 2018, Mr. Samwell was appointed CFO effective July 1st. The 2018 amounts represent compensation earned in the calendar year, including additional re-stated earnings of \$6,923.

(6) The 2019 salary for Mr. Henderson is based on actual earnings. The Share Based Awards of Mr. Henderson include a retention award of \$500,000 for 2018.

Note: Ms. Stuart has outstanding deferred cash payouts totaling \$934,555, Mr. Samwell has \$53,906, Mr. Henderson has \$1,036,036, Ms. Seymour has \$474,813 and Mr. Tomei has \$432,592.

INCENTIVE PLAN AWARDS

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth, for each NEO, all awards outstanding as at December 31, 2019:

| Name | Option-Based Awards | | | | Share-Based Awards | | |
|--------------|---|--------------------------|------------------------|--|--|---|--|
| | Number of Securities underlying unexercised options (#) | Option exercise price \$ | Option Expiration Date | Value of unexercised in-the-money options (\$) | Number of shares or units that have not vested (#) | Market or payout value of share-based awards that have not vested (\$) ⁽¹⁾ | Market or payout value of vested share-based awards not paid out or distributed (\$) |
| S. Stuart | - | - | - | - | 95,213 | \$967,015 | Nil |
| G. Samwell | - | - | - | - | 6,854 | \$69,612 | Nil |
| J. Henderson | - | - | - | - | 131,994 | \$1,340,576 | Nil |
| L. Seymour | - | - | - | - | 49,044 | \$498,107 | Nil |
| L. Tomei | - | - | - | - | 42,954 | \$436,255 | Nil |

(1) Calculated based on the closing price of the HSBC Holdings shares on December 31, 2019 on the London Stock Exchange of £5.919 and based on the exchange rate for UK pounds sterling to Canadian dollars on such date of 1.716.

Incentive plan awards – value vested or earned during the year

The following table sets forth, for each NEO, all awards that have vested during the year ended December 31, 2019:

| Name | Option-based awards Value vested during the year (\$) | Share-based awards Value vested during this year (\$) ⁽¹⁾ | Non-Equity incentive plan compensation - value earned during this year (\$) |
|-----------------------------|---|--|---|
| S. Stuart ⁽²⁾ | Nil | \$500,250 | \$901,286 |
| G. Samwell | Nil | \$82,114 | \$92,760 |
| J. Henderson ⁽³⁾ | Nil | \$1,009,835 | \$797,377 |
| L. Seymour ⁽⁴⁾ | Nil | \$267,955 | \$500,000 |
| L. Tomei ⁽⁵⁾ | Nil | \$274,059 | \$449,437 |

(1) Calculated based on the closing price of the HSBC Holdings shares on December 31, 2019 on the London Stock Exchange of £5.9190 and based on the exchange rate for UK pounds sterling to Canadian dollars on such date of 1.7159.

(2) Amount does not include Deferred Cash of \$157,651 that was earned in previous years and paid during 2019.

(3) Amount does not include Deferred Cash of \$521,268 that was earned in previous years and paid during 2019.

(4) Amount does not include Deferred Cash of \$86,242 that was earned in previous years and paid during 2019.

(5) Amount does not include Deferred Cash of \$113,889 that was earned in previous years and paid during 2019.

PENSION PLAN BENEFITS

Defined benefit plans table

The following table summarizes the accrued pension obligations and annual pension benefits applicable to the NEO:

| Name (a) | Number of years credited service (#) (b) | Annual benefits payable (\$) (c) | | Opening present value of defined benefit obligation ⁽¹⁾ (\$) (d) | Compensatory change ⁽¹⁾ (\$) (e) | Non-compensatory change ⁽¹⁾ (\$) (f) | Closing present value of defined benefit obligation ⁽¹⁾ (\$) (g) |
|------------|--|----------------------------------|-----------|---|---|---|---|
| | | At year end | At age 65 | | | | |
| S. Stuart | 33.2 | 619,750 | 824,656 | 10,216,892 | 103,446 | 1,718,152 | 12,038,490 |
| L. Seymour | 28.0 | 254,559 | 403,491 | 3,985,950 | 737,707 | 777,952 | 5,501,609 |

(1) All Canadian pension amounts in columns (d) through (g) have been calculated using the assumptions and methods disclosed in note 5 to the Bank's consolidated financial statements for the year ended December 31, 2019.

Note: Messrs. Henderson, Tomei and Samwell are reported below under the Defined Contribution plans table.

Canadian Defined Benefit Pension Plans

For the purpose of the disclosure below on the Canadian defined benefit pension plans, “earnings” means base salary excluding all variable pay.

Plan A

Ms. Stuart is a member of HSBC Pension Plan A - Defined Benefit Program. The normal retirement date under this plan for an executive is the first day of the month on or following the executive’s 60th birthday. An executive can retire at any time after reaching age 50.

For an executive retiring early, the pension reduction is $\frac{1}{4}$ of 1% for each month that the retirement date is before age 60, and if the executive retires prior to age 55 the pension will be reduced by an additional $\frac{1}{4}$ of 1% for each month that the retirement date is before age 55.

The normal form of pension is payable for the executive’s life, with a guarantee of 10 years.

Under this plan, the pension is calculated using a formula based on earnings and years of contributory and/or non-contributory service. For the purposes of the Plan A formulae below:

- Highest Average Earnings (“HAE”) means for executive service the average of the highest three consecutive years’ earnings in the last 10 years of membership and for non-executive service the average of the highest five consecutive years’ earnings in the last 10 years of membership.
- The Year’s Maximum Pensionable Earnings (“YMPE”) means the earnings maximum used under the Canada/Quebec Pension Plan to determine contributions and benefits. The YMPE in 2019 is \$57,400.
- The Final Government Maximum Earnings (“FGME”) means the average of the YMPE during the last 3 years of membership.

The pension payable to an executive at their normal retirement age before any reduction for early retirement, and the application of the maximum annual pension prescribed by the *Income Tax Act* for Plan A credited service is as follows:

- For contributory service prior to January 1, 1987, the formula used to determine pension benefits is 1.25% of HAE up to the FGME, plus 1.75% of HAE above the FGME multiplied by years of contributory service.
- For non-contributory service for non-executives January 1, 1987 onward and for non-contributory executive service for year 1987 only, it is 0.8% of HAE up to the FGME, plus 1.2% of HAE over the FGME multiplied by years of non-contributory service.
- For contributory service January 1, 1987 onward, the formula used to determine pension benefits is 1.3% of HAE up to the FGME, plus 2.0% of HAE over the FGME multiplied by years of contributory service.
- For non-contributory executive service, from January 1, 1988 onward, the formula used to determine pension benefits is 1.0% of HAE up to the FGME, plus 1.5% of HAE over the FGME, multiplied by years of non-contributory executive service.

Plan B

Ms. Stuart also has past service in HSBC Pension Plan B. The normal retirement date under this plan for an executive is the first day of the month on or following the executive’s 60th birthday. An executive can retire at any time after reaching age 50.

For an executive retiring early, the pension is actuarially reduced from age 60.

The normal form of pension is payable for the executive’s life, with 66.67% continuing to the executive’s spouse upon the executive’s death.

Under this plan, the pension is calculated using a formula based on earnings and years of service. For the purposes of the Plan B formulae below:

- Highest Average Earnings (“HAE”) means the average of the highest five consecutive years’ earnings.
- The Year’s Maximum Pensionable Earnings (“YMPE”) means the earnings maximum used under the Canada/Quebec Pension Plan to determine contributions and benefits. The YMPE in 2019 is \$57,400.
- The Final Government Maximum Earnings (“FGME”) means the average of the YMPE during the same period of membership over which the HAE is calculated.

The pension payable to an executive at their normal retirement age before any reduction for early retirement, and the application of the maximum annual pension prescribed by the *Income Tax Act* for Plan B credited service is as follows:

- For service for non-executives January 1, 1986 onward, it is 1.0% of HAE up to the FGME, plus 1.35% of HAE over the FGME multiplied by years of service.
- For executive service, from January 1, 1986 onward, the formula used to determine the minimum pension benefit is 1.2% of HAE up to the FGME, plus 2.0% of HAE over the FGME, multiplied by years of executive service.

Plan C

Ms. Seymour is a member of HSBC Pension Plan C. The normal retirement date under this plan is the first day of the month on or following the executive’s 60th birthday. An executive can retire at any time after reaching age 50.

For an executive who is an active member retiring early, the pension reduction is ¼ of 1% for each month that the retirement date is before age 60, and if the executive retires prior to age 55 the pension will be reduced by an additional ¼ of 1% for each month that the retirement date is before age 55.

For an executive without a spouse at retirement, the normal form of pension is payable for the executive’s life, with a guarantee of 10 years. For an executive with a spouse at retirement, the normal form of pension is payable for the executive’s life, with 60% continuing to the executive’s spouse upon the executive’s death.

Under this plan, the pension is calculated using a formula based on earnings and years of contributory and/or non-contributory service. For the purposes of the Plan C formulae below:

- Highest Average Earnings (“HAE”) means the average of the highest 3 years of earnings in the last five years of membership.
- The Year’s Maximum Pensionable Earnings (“YMPE”) means the earnings maximum used under the Canada/Quebec Pension Plan to determine contributions and benefits. The YMPE in 2019 is \$57,400.
- The Final Government Maximum Earnings (“FGME”) means the average of the YMPE during the same period of membership over which the HAE is calculated.
- Estimated CPP Benefit means the estimated annual Canada/Quebec Pension Plan benefit payable based on the YMPE and service.

The pension payable to an executive at their normal retirement age before any reduction for early retirement, and the application of the maximum annual pension prescribed by the *Income Tax Act* for Plan C credited service is as follows:

- The non-contributory formula for service as a non-executive is 1.25% of HAE, reducing at age 65 by the estimated CPP Benefit in respect of non-contributory service while a non-executive member.
- The non-contributory formula for service as an executive is the greater of 1.25% of HAE and the sum of 1.0% of HAE and 0.5% of HAE in excess of the FGME.
- For contributory service the formula is 2.0% of HAE, reducing at age 65 by the estimated CPP Benefit multiplied by years of contributory service.

Canadian Supplemental Retirement Agreement

Mses. Stuart and Seymour are entitled, upon retirement from the Bank, to receive an annual pension during their lifetime pursuant to a supplemental retirement agreement with the Bank. The normal retirement date under the supplemental retirement agreements is the first day of the month on or following the executive's 60th birthday. An executive can retire at any time after reaching age 55. For an executive retiring early, the pension reduction is ¼ of 1% for each month that the pension start date is before age 60.

The normal form of pension is payable for the executive's life, with a guarantee of 10 years.

The supplemental pension payable at an executive's normal retirement date is equal to the total pension calculated using the formulae below minus the pension that can be provided from the Canadian defined benefit pension plans described above. Under the supplemental retirement agreements, the pension is calculated using a formula based on earnings and years of contributory and/or non-contributory service. For the purposes of the formulae below, the relevant definitions for each of the Plans applies.

As of December 31, 2019, the total pension at an executive's normal retirement date equals the following amounts, all calculated without regard to the application of the maximum annual pension prescribed by the *Income Tax Act*:

- The formula for years of executive contributory service is 1.8% of HAE up to the FGME, plus 2.5% of HAE over the FGME.
- The formula for years of executive non-contributory service is 1.6% of HAE up to the FGME, plus 2.3% of HAE over the FGME.
- The formula for years of non-executive service is the formula under the applicable Canadian defined benefit pension plans described above.

The supplemental allowance is forfeited if the executive leaves before age 55 and engages within two years after such termination of employment in any activity, which may be regarded by the Bank as competitive solicitation, directly or indirectly, of clients, prospective clients, or staff of the Bank, or of its subsidiaries and affiliates.

Defined Contribution Plans Table

The following table summarizes the accumulated value of defined contribution plan benefits applicable to the NEOs:

| Name | Accumulated value at start of year ⁽¹⁾ (\$) | Compensatory ⁽¹⁾ (\$) | Accumulated value at year end ⁽¹⁾ (\$) |
|--------------|---|-------------------------------------|--|
| G. Samwell | \$48,132 | \$49,050 | \$112,002 |
| J. Henderson | \$217,620 | \$22,655 | \$250,035 |
| L. Tomei | \$268,712 | \$42,578 | \$358,823 |

(1) All amounts are in Canadian Dollars.

Note: Mses. Stuart and Seymour are reported under the above Defined Benefit plans table.

Canadian Defined Contribution Pension Plan

For the purpose of the disclosure below on the Canadian defined contribution pension plan, "earnings" means base salary including variable pay.

Mr. Tomei, Mr. Henderson, and Mr. Samwell are all senior members of the HSBC Pension Plan A - Defined Contribution Program. Senior members contribute 2% and the Bank contributes 12% of pensionable earnings, subject to the annual Money Purchase Maximum limit as prescribed by the *Income Tax Act*. In 2019 the annual maximum for both employee and employer contributions was \$27,230. The benefit payable upon termination of employment will equal the senior member's total defined contribution account balance.

Canadian Defined Contribution Supplemental Employees' Retirement Plan ("DC SERP")

Mr. Tomei and Mr. Samwell are members of the DC SERP established by the Bank for members whose contributions under the HSBC Pension Plan A – Defined Contribution Program are restricted by the annual Money Purchase Maximum limit under the *Income Tax Act*. Notional contributions equal to 12% of pensionable earnings, in excess of the Money Purchase Maximum limit, are credited to the members' notional accounts. The pensionable earnings under the DC SERP are limited to \$500,000 in a plan year. Notional investment earnings are credited based on returns of the default investment fund offered under HSBC Pension Plan A – Defined Contribution Program. The DC SERP benefit will become vested upon the member's attainment of age 55 and 10 years of continuous service with the Bank. Upon meeting the vesting requirements, the benefit payable upon termination of employment will be equal to the member's notional account balance. The DC SERP benefit is forfeited if the member terminates employment with the Bank prior to age 60 and commences employment with another organization deemed to be a competitor of the Bank.

Canadian Supplemental Retirement Agreement

Mr. Tomei also has an additional notional Supplemental DC Account maintained by the Bank. Annual Notional Contributions equal to \$22,000 will be credited to his Supplemental DC Account. In addition, Notional Contributions of \$100,000 and \$50,000 were credited to his Supplemental DC Account Balance on January 1, 2017 and January 1, 2018 respectively to compensate Mr. Tomei for the forfeiture of a supplemental retirement plan with a prior employer. There are no conditions on the two Notional Contributions of \$100,000 and \$50,000. Notional Interest is credited based on the returns of the default investment fund offered under HSBC Pension Plan A – Defined Contribution Program. The benefit will be paid in 10 annual installments commencing on Mr. Tomei's date of termination of employment. The supplemental allowance is forfeited if Mr. Tomei leaves before age 55 and engages within two years after such termination of employment in an activity which may be regarded by the Bank as competitive solicitation, directly or indirectly, of clients, prospective clients or staff of the Bank or of its subsidiaries or affiliates.

Mr. Tomei will be entitled to the greater of the benefits provided by his Canadian Supplemental Retirement Agreement and his DC SERP, but not both.

TERMINATION AND CHANGE OF CONTROL BENEFITS

The table below summarizes the conditions applicable to the NEO compensation in the event of termination (resignation, termination with or without cause, retirement and change of control):

| Events | Compensation elements | Conditions* |
|--|------------------------------------|---|
| Resignation/ Termination with Cause | Base Salary | Cessation of salary. |
| | Variable Pay | Become ineligible to receive variable pay if notice given or employment is terminated prior to award payment date. |
| | Share Based Awards | Unvested deferred shares units are cancelled. |
| | Non-equity Awards | Unvested deferred cash awards are cancelled. |
| | Pension plans | Entitled to accrued pension. Supplemental plan: Entitled to accrued pension subject to conduct provisions. |
| | Benefits and Perquisites | Cessation of current benefits. |
| Termination without Cause | Base Salary | Cessation of salary. Pay in lieu of notice is provided as required by law. |
| | Variable Pay | In general, become ineligible to receive variable pay if employment is terminated prior to award payment date. |
| | Share Based Awards | Unvested deferred shares units: Full vesting (in accordance with the original vesting schedule) based on "good leaver" status. For mutual separation, a non-compete agreement is required in addition of the good leaver status. |
| | Non-equity incentive Awards | Unvested deferred shares units: Full vesting (in accordance with the original vesting schedule), based on "good leaver" status. For mutual separation, a non-compete agreement is required in addition of the good leaver status. |
| | Pension plans | Entitled to accrued pension. Supplemental plan: Entitled to accrued pension subject to conduct provisions. |
| | Benefits and Perquisites | Cessation of current benefits. |

| | | |
|--|------------------------------------|---|
| Retirement | Base Salary | Cessation of salary. |
| | Variable Pay | In general, become ineligible to receive variable pay if notice given or employment is terminated prior to award payment date. |
| | Share Based Awards | Unvested deferred shares units: Full vesting (in accordance with the original vesting schedule) based on “good leaver” status. |
| | Non-equity incentive Awards | Unvested deferred cash awards: Full vesting (in accordance with the original vesting schedule) based on “good leaver” status and non-compete agreement is signed. |
| | Pension plans | Entitled to accrued pension. Supplemental plan: Entitled to accrued pension subject to conduct provisions. |
| | Benefits and Perquisites | Cessation of current benefits. If eligible, Retiree Benefits will come into effect. |
| Termination following a Change of Control | Base Salary | Cessation of salary. Pay in lieu of notice is provided as required by law. |
| | Variable Pay | In general, become ineligible to receive variable pay if notice of resignation given or employment is terminated prior to award payment date. |
| | Share Based Awards | Awards vest on change of control unless RemCo has agreed and determined that the awards should be exchanged for equivalent awards. |
| | Non-equity incentive Awards | Awards vest on change of control unless RemCo has agreed and determined that the awards should be exchanged for equivalent awards. |
| | Pension plans | Entitled to accrued pension. Supplemental plan: Entitled to accrued pension subject to conduct provisions. |
| | Benefits and Perquisites | Cessation of current benefits. |

*No additional payments and benefits are triggered by these events in Canada.

ADDITIONAL INFORMATION ON COMPENSATION

Certain additional information is provided in accordance with the Basel Committee on Banking Supervision’s Pillar III disclosure requirements which has been adopted by the OSFI Canada as part of recommendations from the Financial Stability Review Board on compensation. The qualitative disclosure requirements have been provided in the Executive Compensation section of the AIF set out above.

For the purpose of the quantitative tables below, “Senior Management” includes the CEO and members of the Bank’s Executive committee. In 2019, sixteen people were part of the Executive committee. The Executive committee includes 9 people who are MRTs. In addition, there was an additional group of MRTs not included in the Executive committee who have been defined as set out in the Executive Compensation section noted above. Twelve people were identified MRTs based on the alignment with Group definition. In keeping with the Financial Stability Review Board’s principles and standards a significant portion of variable compensation for Senior Management and MRTs has been deferred over a period of years.

All amounts provided in the tables below are set out in \$000s.

| Remuneration - Fixed and Variable amounts | December 31, 2019 | | | December 31, 2018 | | |
|--|----------------------------------|--|----------------------|-------------------------------------|---------------------------------------|----------------------|
| | Senior Management (16 People) | Material Risk Takers (12 People) | Total (28 People) | Senior Management (19 People) | Material Risk Takers (9 People) | Total (28 People) |
| FIXED | 7,460 | 4,362 | 11,822 | 7,574 | 3,479 | 11,052 |
| Cash Based (incl. FPA Cash) (1) | 7,460 | 4,362 | 11,822 | 7,574 | 3,479 | 11,052 |
| VARIABLE (2) | 8,094 | 4,039 | 12,133 | 9,113 | 4,412 | 13,525 |
| Cash | 2,640 | 1,212 | 3,852 | 2,679 | 1,234 | 3,913 |
| Non-deferred shares (3) | 1,504 | 1,212 | 2,715 | 1,613 | 1,234 | 2,846 |
| Deferred Cash | 1,885 | 808 | 2,693 | 1,975 | 822 | 2,798 |
| Deferred Shares | 2,066 | 808 | 2,873 | 2,845 | 1,122 | 3,967 |
| | | | | | | |
| Deferred Remuneration | December 31, 2019 | | | December 31, 2018 | | |
| | Senior Management | Material Risk Takers | Total | Senior Management | Material Risk Takers | Total |
| Total outstanding, unvested (4) | 7,965 | 3,827 | 11,792 | 6,903 | 3,036 | 9,939 |
| Oustanding cash | 3,458 | 1,546 | 5,004 | 2,663 | 1,157 | 3,820 |
| Oustanding, share based | 4,507 | 2,280 | 6,788 | 4,239 | 1,880 | 6,119 |
| Awarded during the financial year (5) | 4,166 | 1,973 | 6,139 | 4,185 | 1,733 | 5,919 |
| Paid out (6) | 3,956 | 2,583 | 6,539 | 3,500 | 1,840 | 5,340 |
| Reduced through performance adjustments (7) | - | - | - | - | - | - |
| | | | | | | |
| Sign-on and Severance | December 31, 2019 | | | December 31, 2018 | | |
| | Senior Management | Material Risk Takers | Total | Senior Management | Material Risk Takers | Total |
| Sign-on payments | - | - | - | - | - | - |
| Made during the year | - | - | - | - | - | - |
| Number of beneficiaries | - | - | - | - | - | - |
| Severance payments | - | - | - | - | - | - |
| Made during the year | - | - | - | - | - | - |
| Number of beneficiaries | - | - | - | - | - | - |

(1) Fixed pay and fixed pay allowance granted in cash.

(2) Variable pay for performance year 2019 / 2018. Effective 2017, restricted shares are no longer eligible to accrue dividends during the deferral period under the new European Banking Authority (EBA) Guidelines.

(3) Immediate shares, subject to a six month or one year retention period.

(4) Outstanding, unvested, deferred remuneration is subject to ex post explicit adjustments. There is no retained remuneration subject to ex post explicit adjustment as at 31 December 2019 / 31 December 2018.

(5) Value of deferred cash and shares awarded during 2019 / 2018. Share price taken at 31 December 2019 and 2018.

(6) Value of vested shares and cash paid out during 2019 / 2018. Share price taken at 31 December 2019 and 2018.

(7) There is no reduction of deferred remuneration and retained remuneration due to ex post explicit adjustment during 2019 and 2018.

DIRECTORS' COMPENSATION

The following table sets forth the compensation paid to non-executive directors for the year ended December 31, 2019:

| Name | Fees earned (\$) | Share-based awards (\$) | Option-based awards (\$) | Non-equity incentive plan compensation (\$) | Pension value (\$) | All other compensation (\$) | Total (\$) |
|-------------------|------------------|-------------------------|--------------------------|---|--------------------|-----------------------------|------------|
| J. Athaide | \$116,000 | Nil | Nil | Nil | Nil | Nil | \$116,000 |
| K. Gavan | \$89,250 | Nil | Nil | Nil | Nil | Nil | \$89,250 |
| B. Horowitz | \$116,000 | Nil | Nil | Nil | Nil | Nil | \$116,000 |
| N. Hughes Anthony | \$53,500 | Nil | Nil | Nil | Nil | Nil | \$53,500 |
| M. Korenberg | \$116,000 | Nil | Nil | Nil | Nil | Nil | \$116,000 |
| R. McFarlane | \$155,000 | Nil | Nil | Nil | Nil | Nil | \$155,000 |
| S. Minzberg | \$216,000 | Nil | Nil | Nil | Nil | Nil | \$216,000 |

At the start of 2019, non-executive directors were each entitled to an annual retainer of \$90,000. In addition, a non-executive director was entitled to \$100,000 annually for being Chairman of the Board. Another non-executive director was entitled to \$40,000 per annum for chairing the Audit, Risk and Conduct Review Committee. Members of the Audit, Risk and Conduct Review Committee (with the exception of the Chair) were each entitled to \$17,000 per annum.

Changes to non-executive directors' compensation were introduced in 2019, with effect from July 1, 2019. Subsequent to that date, non-executive directors were entitled to receive an annual retainer of \$105,000, and the Chairman of the Board was entitled to receive an additional retainer of \$100,000. The Chair of the Audit, Risk and Conduct Review Committee was entitled to receive \$75,000 per annum. Members of the Audit, Risk and Conduct Review Committee (with the exception of the Chair) were entitled to \$20,000 per annum. In addition, a \$15,000 retainer was introduced as compensation to the Chair of any ad hoc Nomination Committee.

Annual retainers were paid quarterly, such that increases to annual compensation entitlements were reflected in compensation paid to non-executive directors for services provided on and after July 1, 2019.

Non-executive directors were entitled to reimbursement for reasonable travel expenses for attending meetings of the Board and its Committees throughout 2019.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Aggregate Indebtedness

The following table sets out the aggregate amount of indebtedness (including some routine indebtedness) as at April 3, 2020, to the Bank or any of its subsidiaries incurred by all current and former executive officers, directors and employees:

| AGGREGATE INDEBTEDNESS (\$) | | |
|-----------------------------|---|-------------------|
| Purpose | To the Company or its Subsidiaries (\$millions) | To Another Entity |
| Share purchases | Nil | Nil |
| Other | \$1,012 | Nil |

Indebtedness of Directors and Executive Officers under (1) Securities Purchase and (2) Other Programs

The following table sets forth the indebtedness incurred by executive officers, directors and their associates. Indebtedness that had been entirely repaid on or before the date of the date of the AIF and routine indebtedness are not included in the table. For the purpose of this section, "Prime" means the prime lending rate on interest announced from time to time by the Bank.

| INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS UNDER (1) SECURITIES PURCHASE AND (2) OTHER PROGRAMS | | | | | | |
|--|---|--|--|--|--|---|
| Name and Principal Position | Involvement of Company or Subsidiary | Largest Amount Outstanding During 2019 (\$) | Amount Outstanding as at April 3, 2020 (\$) | Financially Assisted Securities Purchased During 2019 (#) | Security for Indebtedness (Security purchase programs only) | Amount Forgiven During 2019 (\$) |
| Securities Purchase Programs – None | | | | | | |
| Other Programs | | | | | | |
| G. Samwell Chief Financial Officer | Bank as Lender | \$1,343,118 | \$1,291,331 | Nil | Nil | Nil |
| L. Bosma General Counsel | Bank as Lender | \$726,407 | \$674,273 | Nil | Nil | Nil |
| G. Stavridis Senior Vice-President and Head of Financial Crime Compliance | Bank as Lender | \$494,011 | \$469,850 | Nil | Nil | Nil |
| S. Tsui Senior Vice President and Chief Auditor | Bank as Lender | \$557,498 | \$532,186 | Nil | Nil | Nil |
| S. Birk Head of Strategy & Planning | Bank as Lender | \$635,220 | \$545,221 | Nil | Nil | Nil |
| K. Toews Executive Vice- President and Head of Human Resources | Bank as Lender | \$971,666 | \$861,106 | Nil | Nil | Nil |
| L. Dalton Chief of Staff, Office of the CEO | Bank as Lender | \$388,710 | \$376,034 | Nil | Nil | Nil |

Details of indebtedness listed above are as follows:

Mr. G. Samwell, Chief Financial Officer, has a mortgage loan secured by real estate maturing March 14, 2023 in the amount of \$1,291,331 at a fixed rate of interest of 2.74%.

Ms. L. Bosma, General Counsel, has a line of credit secured by real estate in the amount of \$69,429 at a variable rate of interest of Prime, a mortgage loan secured by real estate maturing December 29, 2023 in the amount of \$272,636 at a variable rate of interest of Prime less 1.11% and a mortgage loan secured by real estate maturing December 31, 2021 in the amount of \$332,207 at a fixed rate of interest of 2.35%.

Ms. G. Stavridis, Senior Vice-President and Head of Financial Crime Compliance, has a mortgage loan secured by real estate maturing July 4, 2023 in the amount of \$469,850 at a variable rate of interest of Prime less 1.06%.

Ms. S. Tsui, Senior Vice President and Chief Auditor, has a mortgage loan secured by real estate maturing January 4, 2022 in the amount of \$349,794 at a fixed rate of interest of 2.59% and a mortgage loan secured by real estate maturing August 9, 2020 in the amount of \$182,392 at a fixed rate of 1.39%.

Mr. S. Birk, Head of Strategy & Planning, has a mortgage loan secured by real estate maturing February 5, 2024 in the amount of \$47,403 at a variable rate of interest of Prime less 1.11%, a mortgage loan secured by real estate maturing February 5, 2022 in the amount of \$479,212 at a fixed rate of interest of 2.35%, an unsecured line of credit in the amount of \$8,009 at a variable interest rate of Prime and a credit card balance of \$10,597 which if not paid in full by the due date, would bear interest at a rate of 9.9%

Ms. K. Toews, Executive Vice-President and Head of Human Resources, has a mortgage loan secured by real estate maturing August 20, 2024 in the amount of \$861,106 at a fixed rate of interest of 2.54%.

Ms. L. Dalton, Chief of Staff, Office of the CEO, has a mortgage loan secured by real estate maturing November 8, 2022 in the amount of \$281,920 at a variable rate of interest of Prime less 1.11% and a mortgage loan secured by real estate maturing February 9, 2023 in the amount of \$94,114 at a fixed rate of interest of 2.89%.

APPOINTMENT OF AUDITORS

In accordance with the Bank Act, one firm of qualified accountants is appointed by the shareholder to act as auditor until the next Annual General Meeting. The auditors of the Bank for the year ended December 31, 2019 were PricewaterhouseCoopers LLP, Chartered Accountants, located at PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada, V6C 3S7. PricewaterhouseCoopers LLP (“PwC”) was first appointed on February 20, 2015.

AUDITOR’S EFFECTIVENESS

The OSFI Corporate Governance Guideline sets out expectations for the Audit, Risk and Conduct Review Committee (“ARC”) to report to the Board annually on the effectiveness of the external auditor. In addition, CPA Canada and the Canadian Public Accountability Board (“CPAB”) set an expectation for the ARC to conduct a periodic comprehensive review of the external auditor at least once every five years. PwC completed five years as external auditor with the completion of annual audit for the year ended 31 December 2019.

The ARC conducted periodic comprehensive review of external auditors considering (a) independence, objectivity and professional skepticism; (b) quality of the engagement team; (c) quality of communication and interaction with the external auditor; (d) quality of service; (e) safeguards against institutional independence familiarity threats; and (f) CPAB inspection findings. The ARC concluded that it was satisfied with the quality of audit services provided by PwC.

MANAGEMENT CONTRACTS

Management support is provided by the HSBC Group; however, there are no significant management functions of the Bank or any of its subsidiaries that are, to any substantial degree, performed by a person other than the directors or senior officers of the Bank or its subsidiaries.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Information on legal proceedings and regulatory matters is set out in note 31 on the Bank’s consolidated financial statements on page 102 of the Annual Report.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than the information concerning transactions with related parties which are disclosed on page 26 in the MD&A and in notes 23, 26, and 29 to the Bank’s consolidated financial statements on pages 94, 99, 100 and 101 respectively of the Annual Report, no director or executive officer of the Bank, HSBC Holdings, or an associate or affiliate thereof, has had or currently has a material interest, directly or indirectly, in any transaction involving the Bank within the three most recently completed financial years or during the current financial year, that has materially affected or is reasonably expected to materially affect the Bank or any of its subsidiaries.

TRANSFER AGENTS AND REGISTRARS

The Register of Debentures for the subordinated debentures issued to third parties is maintained by the Bank in its office in Toronto.

MATERIAL CONTRACTS

The Bank has not entered into any material contracts outside the ordinary course of business.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, the auditor of the Bank for the year ended December 31, 2019, was independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

AUDIT COMMITTEE

Audit Committee Charter

The Audit, Risk and Conduct Review Committee terms of reference are attached as Appendix 1 to this Annual Information Form.

Composition of the Audit Committee

The Audit, Risk and Conduct Review Committee consists of Robert G. McFarlane (Chair), Judith J. Athaide, Karen Gavan, Beth S. Horowitz, Michael J. Korenberg, and Samuel Minzberg. Each member of the Audit, Risk and Conduct Review Committee is independent and financially literate according to the definition under the applicable Canadian securities law.

Relevant Education and Experience

The relevant education and experience of each member of the Audit, Risk and Conduct Review Committee is set out below:

Judith J. Athaide is President and Chief Executive Officer Cogent Group Inc. Her other Board appointments include the following: Chair of the Nomination & Governance Committee of PHX Energy Services; Chair of the Health, Safety and Environment Committee and member of the Audit and Compensation and Governance Committees of AltaGas Canada Inc; member of the Audit, Nuclear Operations and Human Resources, Safety and Environment Committees of New Brunswick Power; member of the Compensation and Governance Committee of CMG Ltd.; member of the Audit Committee of SDTC; member of the Advisory Committee of the Calgary ICD Chapter and member of Audit for PHX Energy Services. Ms. Athaide's former appointments include: Chair of the Calgary ICD Chapter; Chair of the Audit, Risk & Environment Committee of Fortis Alberta Inc.; Chair of the Governance & Human Resources Committee of Balancing Pool, Chair of Human Resources & Compensation Committee of Cimarron Engineering and Director of Cogenera Corporation. She has held a variety of executive roles in the energy industry and academic positions at Alberta's universities. She is currently the President and Chief Executive Officer of The Cogent Group Inc. Ms. Athaide obtained a B.Comm. (Honours) from the University of Manitoba, an MBA from the University of Alberta and a B.Sc. Engineering from the University of Alberta. She obtained ICD.D designation from the Rotman School of Business.

Karen Gavan is a Corporate Director. Her other appointments include: Member of the Board and Audit Committee of the Swiss Re Group; member of the Board and Audit Committee of Swiss Re Americas; member of the Board and Audit Committee of Mackenzie Financial Corporation/Counsel Group of Funds and Chairperson of the Fund Oversight Committee. Ms. Gavan's former appointments include: Director, President and CEO of Economical Insurance; Chief Financial Officer of Transamerica Life Canada/AEGON Canada; Chief Operating Officer of Transamerica Life Canada/AEGON Canada and various finance roles at Canada Life, Imperial Life and Prudential Insurance. Ms. Gavan has a B.Comm (Honours) from Lakehead University, is a Fellow of the Institute of Chartered Accountants of Ontario, obtained ICD.D designation, and completed the Global Risk Institute Board Risk Oversight and Insight Program.

Beth S. Horowitz is a Corporate Director. Her other appointments include the following: Non-Executive Director, People Corporation; Director, Harvard Business School Club of Toronto; Trustee, Art Gallery of Ontario; Director, SheEO; Director, Unity Charity; Member, Catalyst Canada Advisory Board, and Member, Women's Venture Capital Fund Advisory Board. Ms. Horowitz's former appointments include: Chair, President & CEO, Amex Bank of Canada, and President & General Manager, Amex Canada, Inc; Non-Executive Director, Aimia, Inc. Ms. Horowitz has a B.A. from Cornell University, an MBA from Harvard Business School, and holds an ICD.D from Rotman School of Business.

Michael J. Korenberg is a Corporate Director. His other appointments include the following: Chair of the Board of Governors and the Executive Committee, and member of the Governance, Audit, Finance, Indigenous Engagement, Property, I.T. and Climate Action and Sustainability Committees, of The University of British Columbia; Board Chair, GCT Global Container Terminals (port terminal operator); Director and Board Chair of KP Tissue Inc./Kruger Products (tissue manufacturer); member of Dean's Advisory Committee for the Centre for Business Law at the Peter

A. Allard Law School; Chair/Managing Director of Wreath Group (a private strategic advisory firm). Mr. Korenberg's former appointments include: Deputy Chairman and Managing Director of The Jim Pattison Group (diversified group of operating businesses), where he led corporate development efforts for 20 years; a director (for 15 years) and Board Chair of Canfor Corporation and Canfor Pulp Products Inc.; member of the Advisory Board of the Heart & Stroke Foundation (B.C. & Yukon), Deputy Chairman & Chief Operating Officer of Orca Bay Sports Entertainment (Vancouver Canucks, Vancouver Grizzlies and General Motors Place (now Rogers Arena)); and a partner at Blake, Cassels & Graydon LLP. Mr. Korenberg has a B.A. with distinction from Carleton University, a J.D. from Osgoode Hall Law School, and ICD.D from Rotman School of Management, University of Toronto. He is a member of the Law Society of British Columbia, the Law Society of Ontario and the Canadian Bar Association.

Robert G. McFarlane is a Corporate Director. His other appointments include: Chair of Greater Vancouver Advisory Board of The Salvation Army (Canada); Member of the Board of Trustees, its Capital Assets and Finance Committee; Vice Chair of its External Relations and Development Committee, and member of the Football Management Committee, Queen's University at Kingston; Chair of Information Technology Advisory Council, The University of British Columbia; Member of the British Columbia Chapter Executive of the Institute of Corporate Directors; and Member Board of Directors Economical Insurance. Mr. McFarlane's former appointments include: Non-Executive Director, Chair of the Audit Committee of Entertainment One Ltd; Non-Executive Director, Deputy-Chair of the Board and Chair of the Audit and Risk Committee, RSA Canada; Executive Vice President and Chief Financial Officer, TELUS Corporation; Director, Executive Vice President, Chief Financial Officer and Secretary-Treasurer, Clearnet Communications Inc; Vice President, Orenda Corporate Finance; Director and Chair of the Audit Committee, Ascalade Communications Inc; Director, Vice-Chair of the Board, Business Council of British Columbia; and Director and Chair of the Audit and Risk Committee, InnVest Real Estate Investment Trust. Mr. McFarlane has a B.Comm (Honours) from Queen's University, an MBA from Ivey Business School, Western University and obtained ICD.D designation.

Samuel Minzberg is the Chairman of the Board. He is Of Counsel at Davies Ward Phillips & Vineberg in Montreal, and formerly served as Partner until December 2016. Other current appointments include Director of Reitmans (Canada) Limited; Trustee and Member of the Board of Governors of the Sir Mortimer B. Davis – Jewish General Hospital Foundation; Member of the Board of Governors of McGill University of Montreal, and serves on its Executive Committee and is Chair of its Nominating, Governance and Ethics Committee; Vice-Chairman of the Integrated Health and Social Services University Network for West-Central Montreal; Member of the HSBC North America Holdings Inc Board of Directors since March 2005 and is a member of the HSBC North America Holdings Inc Audit, Risk and Nominating and Governance Committees. Mr. Minzberg's former appointments include: President and Chief Executive Officer of Claridge Inc.; Director, Quebecor Media Inc.; and Director, Richmond Mines Inc. Mr. Minzberg holds B.A., B.C.L and LL.B degrees from McGill University.

Pre-Approval of Policies and Procedures

The Bank's Audit, Risk and Conduct Review Committee has adopted specific policies and procedures for non-audited services provided by external auditors. These policies and procedures provide principles to be considered when evaluating the independence of accountants and specifically prohibit certain services. Additionally, certain services such as further assurance services, certain tax services, and certain other services are pre-approved, subject to certain restrictions.

External Auditor Service Fees

Fees related to the years ended December 31, 2019 and December 31, 2018, to our external auditor, PwC, are detailed below.

| Fees (thousands) ⁽¹⁾ | 2019 | 2018 |
|-----------------------------------|-------|-------|
| Audit Fees | 4,441 | 5,338 |
| Audit-Related Fees ⁽²⁾ | 74 | 239 |
| Total | 4,515 | 5,557 |

(1) The classification of fees is based on applicable Canadian securities law.

(2) The Audit-Related fees includes fees paid for the audit of the Bank's pension funds and translation in 2018.

Exemptions

The issuer is relying upon the exemption in Section 6.1 of National Instruments 52-110.

ADDITIONAL INFORMATION

Additional information relating to the Bank may be found on SEDAR at www.sedar.com. Additional financial information is provided in the Bank's consolidated financial statements and MD&A for the year ended December 31, 2019, which can be obtained from SEDAR at www.sedar.com.

APPENDIX 1: HSBC BANK CANADA AUDIT, RISK AND CONDUCT REVIEW COMMITTEE

TERMS OF REFERENCE

1. Purpose

The Board of HSBC Bank Canada (the 'Bank') has delegated to the Audit, Risk and Conduct Review Committee (the 'Committee') oversight of:

(a) matters relating to financial reporting and internal financial controls, in particular reviewing: (i) the integrity of the financial statements, Pillar 3 disclosures, formal announcements and disclosures relating to financial performance; (ii) the effectiveness of Internal Audit and the external audit process; and (iii) the effectiveness of internal financial control systems;

(b) risk-related matters impacting the Bank and its subsidiaries, including risk governance and internal control systems; and

(c) conduct review committee duties referred to in s. 195(3) of the *Bank Act*, monitoring procedures to resolve conflicts of interest as required under s. 157(2)(d) of the *Bank Act* and monitoring procedures to provide disclosure of information to customers of the Bank, and ensuring they are being adhered to, as required under s. 157(2)(f) of the *Bank Act*.

2. Membership

Pursuant to ss. 194 and 195 of the *Bank Act*, the Committee, including the Chair, shall comprise at least three members, all of whom shall be independent non-executive directors, and the majority of whom are not **affiliated** with the Bank. In addition, no officer or employee of the Bank or its subsidiaries may serve as a Committee member.

The most likely circumstances under which a director would be **affiliated** with the Bank are as:

- an officer or employee of the Bank or an affiliate;
- a significant borrower from the Bank;
- an officer or employee of a significant borrower from the Bank;
- a controller of one or more entities which, as a group, is a significant borrower from the Bank;
- a provider of goods or services to the Bank (or a partner, officer, employee, etc. of an entity that does), if the total annual billings to the Bank exceed 10% of their total annual billings; or
- an individual that has a loan which is not in good standing with the Bank or is a director, officer or employee of an entity with such a loan.

The Chair of the Committee shall be appointed by the Board from among the independent non-executive directors.

Members of the Committee and the Chair shall be appointed subject to endorsement by each of the Group Audit and Group Risk Committees.

All members of the Committee must be "financially literate", as that term is defined in National Instrument 52-110 *Audit Committees*. In addition, at least one member of the Committee shall have recent and relevant financial experience. When appointing directors to the Committee, the Board shall have regard to the Committee collectively to have appropriate skills, experience and competence in relation to financial management relevant to the financial services sector.

3. Attendance

The Committee may invite any director, executive, independent auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the satisfaction of its responsibilities.

The Committee shall meet separately with the external auditor, the head of Internal Audit, the Chief Risk Officer ('CRO'), the Chief Financial Officer, the head of Regulatory Compliance and the head of Financial Crime Compliance at least twice each year without management present.

4. Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four times each year.

The quorum for meetings is a majority of the members.

5. Audit-related Committee Responsibilities

The Committee's responsibilities shall include:

5.1 Financial Reporting

- 5.1.1 monitor and critically assess the integrity of the financial statements of the Bank before submission to the Board for approval, Pillar 3 disclosures and any formal announcements and supplementary regulatory information relating to the Bank's financial performance;
- 5.1.2 review, and consider changes to, significant accounting policies, including Pillar 3 disclosure policies and practices, as applicable;
- 5.1.3 review, and report to the Board on, significant accounting judgements and adjustments;
- 5.1.4 review going concern assumptions and any qualifications;
- 5.1.5 review, as applicable, compliance with accounting standards, listing rules, Pillar 3 disclosure requirements and other requirements relating to financial reporting;
- 5.1.6 review disclosure that describes the work of the Committee;
- 5.1.7 review the Annual Operating Plan and Capital Plan;
- 5.1.8 review comment letters from regulatory authorities;
- 5.1.9 review matters as advised by Internal Audit, any other function or the external auditor;
- 5.1.10 review any significant or unusual items that may need to be highlighted in the annual report and accounts, or its local equivalent, by the external auditor;
- 5.1.11 at its discretion, review reports and minutes of the Disclosure Review Committee;
- 5.1.12 review and approve the following for the Finance function on an annual basis:
 - (a) its budget and resources, and
 - (b) its mandate.
- 5.1.13 review the adequacy of resources and expertise as well as succession planning for the Finance function;
- 5.1.14 advise the Board that the annual report and accounts, or equivalent, taken as a whole, are fair, balanced and understandable, and provides the information necessary for shareholders to assess the Bank's position and performance, as applicable in the Bank's jurisdiction;

- 5.1.15 review the Bank's financial statements, management's discussion & analysis and annual and interim profit of loss press releases before the Bank publicly discloses this information;
- 5.1.16 report to the Board on the Bank's compliance with all applicable corporate governance codes or standards in relation to financial reporting; and
- 5.1.17 provide assurances to the Board regarding compliance by the Bank with relevant regulations relating to financial reporting.

5.2 Internal Audit

- 5.2.1 review and approve the Internal Audit charter;
- 5.2.2 oversee the work of Internal Audit and recommend to the Board the appointment and removal of the head of Internal Audit;
- 5.2.3 monitor and assess the effectiveness, performance, resourcing, independence and standing of the Internal Audit function;
- 5.2.4 consider major findings of internal investigations and management's response;
- 5.2.5 approve the local Internal Audit budget and resources and annual work plan, including material plan changes during the year;
- 5.2.6 satisfy itself that the Internal Audit work plan is aligned to the key risks of the business;
- 5.2.7 satisfy itself there is appropriate co-ordination between Internal Audit and the external auditor;
- 5.2.8 to request that management inform other Board committees on (a) material issues arising from or (b) shortcomings perceived in the scope or adequacy of, the work of Internal Audit relating to matters falling within the scope of such committees and that feedback is received from them.

5.3 External Audit

- 5.3.1 review the terms of appointment, re-appointment, or removal of the external auditor and approve their remuneration and terms of engagement, and make recommendations to the Board for approval by the Bank's shareholder;
- 5.3.2 oversee the implementation by management of the HSBC Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant regulatory requirements;
- 5.3.3 approve in advance the supply of any non-audit services by the external auditor: (a) considering the impact this may have on independence, (b) taking into account the relevant regulations and ethical guidance in this regard, (c) agreeing the terms of engagement and (d) the fees for any such services; and report to the Board on any improvement or action required;
- 5.3.4 (a) review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process, considering relevant professional, regulatory and other requirements, and (b) report annually to the Board on the effectiveness of the external auditor;
- 5.3.5 oversee the rotation of audit partners and external auditors;
- 5.3.6 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 management's responses).

5.3.7 discuss with the external auditor the approach, nature, and scope of their audit and reporting obligations throughout the audit process including, as applicable:

- any significant accounting and auditing problems and reservations;
- major judgemental areas;
- alternative accounting treatments together with the potential ramifications;
- any significant accounting 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.

5.3.8 oversee the implementation by management of the HSBC Group policy for the engagement of former employees and contractors of the external auditor.

5.4 Internal Controls

5.4.1 review the effectiveness of the Bank's and its subsidiaries' internal financial controls (the systems established to identify, assess, manage and monitor financial risks);

5.4.2 consider any findings of major investigations of internal controls over financial reporting matters, management's response and the conclusions of any testing carried out by internal or external auditors;

5.4.3 review all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (including any annual report, and other reports as required by applicable laws and regulations, from the Bank's Chief Executive and Chief Financial Officer that such persons have disclosed to the Committee and to the external auditor) which could adversely affect the Bank'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 Bank's internal financial controls;

5.4.4 review, and, if appropriate, endorse the content of the statement relating to internal financial controls in the annual report, or its equivalent, for submission to the Board.

5.5 Whistleblowing

5.5.1 (a) oversee the local implementation of the Group's policies and procedures for capturing and responding to whistleblower concerns; (b) oversee the local implementation of the Group's procedures to ensure confidentiality, protection and fair treatment of whistleblowers; (c) routinely review reports arising from the operation of the whistleblowing policies and procedures, including as set out in s. 7.2.3, below; and (d) satisfy itself that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action;

5.5.2 annually review the operation and effectiveness of the arrangements by which staff may, in confidence, raise concerns.

6. Risk-related Committee Responsibilities

The Committee's responsibilities shall include:

6.1 Risk-related Matters

6.1.1 To oversee and advise the Board on risk-related matters, including both financial and non-financial risks.

- 6.1.2 To review and provide independent challenge on risk management reports, including the Bank's enterprise risk reports to:
- (a) Assess the risk profile of the Bank and how the risks arising from the Bank's businesses are controlled, monitored and mitigated;
 - (b) Focus on current and forward-looking risks to enable the Committee to assess the Bank's vulnerability and resiliency to potential risks;
 - (c) Review the effectiveness of the Bank's Conduct framework designed to deliver fair outcomes for customers, preserve the orderly and transparent operation of financial markets, and protect the Bank against adverse outcomes (including reputational damage) to the Bank's financial and non-financial condition and prospects; and
 - (d) Provide such additional assurance as the Board may require regarding the reliability of risk information submitted to it.

6.2 Risk Appetite

- 6.2.1 To satisfy itself that risk appetite informs the Bank's strategy and business plans and that account has been taken of the macroeconomic and financial environment, drawing on financial stability assessments and other authoritative sources that may be relevant;
- 6.2.2 To advise the Board on risk appetite and risk tolerance related matters;
- 6.2.3 To review and recommend the Bank's Risk Appetite Statement at least annually to the Board for approval;
- 6.2.4 To receive reports where appropriate, to satisfy itself that the Bank's approach to the determination of its risk appetite is in line with regulatory requirements;
- 6.2.5 As applicable, to review and recommend the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') to the Board for approval, and following that approval, to escalate any material issues relating to the capital component of the ICAAP to the Group Risk Committee;
- 6.2.6 As applicable, to review and recommend the Bank's Internal Liquidity Adequacy Assessment Process ('ILAAP') to the Board for approval, and following that approval, to escalate any material issues raised during the Committee's ILAAP review, to the Group Risk Committee;
- 6.2.7 To consider and advise the Board on the risks associated with proposed strategic acquisitions/disposals, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Bank;
- 6.2.8 To review and advise the Board or other committee that oversees remuneration matters on the Bank's alignment of remuneration with risk appetite;
- 6.2.9 To consider and advise the Board on the effectiveness of management's policies for addressing risks relating to cyber security and information security;
- 6.2.10 To review and advise the Board on the effectiveness of management's policies for addressing risks relating to the Bank's IT and operational resilience programmes; and
- 6.2.11 To provide a forward-looking perspective to the Board on financial crime risk, including oversight of matters relating to:
- (a) Financial crime risk and financial system abuse, including anti-money laundering, sanctions, terrorist financing and proliferation financing;
 - (b) Controls relating to anti-bribery and corruption; and

(c) Where the Bank may become exposed to financial crime and systems abuse.

6.3 Stress Testing

- 6.3.1 To review and satisfy itself that the Bank's stress testing framework, governance and related internal controls are robust;
- 6.3.2 To review and challenge management's interpretation of the scenario(s) prescribed by the regulator, including areas of judgement;
- 6.3.3 To review and challenge the results of, and supporting information for, enterprise-wide stress tests presented by management; and
- 6.3.4 To review and approve the Bank's final stress testing submissions to regulatory authorities.

6.4 Enterprise Risk Management Framework and Internal Control Systems

- 6.4.1 To annually review the Bank's enterprise risk management framework and satisfy itself that it is operating effectively;
- 6.4.2 To review the effectiveness of internal control systems; and
- 6.4.3 To review how effectively management is embedding and maintaining an effective risk management culture and a strong internal control environment designed to foster compliance with HSBC Group and Bank policies and regulatory compliance requirements.

In carrying out its oversight role, the Committee will consider any material findings from regulators relating to risk governance, conduct of business, risk assessment or management processes.

6.5 Compliance

- 6.5.1 To approve the annual plan for the Compliance function, including the budget and resources for the function, and receive regular reports on progress against the plan and other matters relating to compliance risk and the Bank's relationship with its regulators.
- 6.5.2 To review and approve the mandate of the Compliance function on an annual basis.

6.6 Chief Risk Officer and Risk Management Function

- 6.6.1 To monitor the effectiveness and independence (from the business) of the CRO and to review the composition and effectiveness of the risk management function including that it is of sufficient stature, independent of the business and adequately resourced;
- 6.6.2 To recommend to the Board the appointment or removal of the CRO;
- 6.6.3 To approve the annual plan for the Risk function, including the budget and resources for the function, and receive regular reports on progress against the plan; and
- 6.6.4 To review and approve the mandate of the Risk function on an annual basis.

6.7 Internal Audit

- 6.7.1 To review reports from Internal Audit that provide assurance on the adequacy of internal control processes; and
- 6.7.2 To request that management inform other Board committees (as applicable) on (a) material

issues arising from or (b) shortcomings perceived in the scope or adequacy of, the work of Internal Audit relating to matters falling within the scope of such committees.

6.8 External Audit

6.8.1 To review any issue raised by the external auditor in respect of (a) the audit of the Bank's annual report and accounts and management's response, which relates to the management of risk or internal control systems, or (b) in connection with the external auditor's observations of the Bank's (i) regulatory standing and compliance or (ii) general competitive standing.

6.9 Annual Report

6.9.1 Where applicable, to review and endorse the content of the risk committee report, risk disclosures or statements contained in the annual report relating to internal controls, including the assessment of principal risks facing the Bank.

6.10 Performance of Audit Committee Functions on behalf of Subsidiaries

6.10.1 The Committee shall perform all of the foregoing functions for and on behalf of each direct or indirect subsidiary of the Bank which is a federally regulated financial institution that is statutorily required to have an audit committee.

7. Conduct-related Committee Responsibilities

7.1 Compliance with Part XI (Self-Dealing) Section of the *Bank Act*

The Committee is responsible for performing duties related to Part XI of the *Bank Act*, and shall:

7.1.1 Require Management to establish procedures for complying with Part XI of the *Bank Act* (the 'Related Party Transaction Procedures');

7.1.2 Review the Related Party Transaction Procedures and their effectiveness to ensure that the Bank is compliant;

7.1.3 Review the Bank's practices to ensure that any related party transactions that may materially affect the Bank's stability or solvency are identified;

7.1.4 Where relevant, establish criteria for determining whether a related party transaction is nominal or immaterial for purposes of the *Bank Act*;

7.1.5 Review and, if advisable, approve the following on terms and conditions more favourable than those offered to the public:

- (a) Loans, other than margin loans, to Bank senior officers;
- (b) Loans on the security of a mortgage on a principal residence, to the spouse or common-law partner of a senior officer of the Bank; and
- (c) Certain other financial services for Bank senior officers, their spouses or common-law partners, or their minor children as stipulated in the *Bank Act*.

7.1.6 Report to the Board following each Committee meeting about the Committee's activities and with appropriate recommendations;

7.1.7 Deliver annually to the Board the Committee's report on its activities during the year in carrying out its prescribed responsibilities under section 195(3) of the *Bank Act*; and

Perform these functions for each direct or indirect subsidiary of the Bank which is a federally

7.1.8 regulated financial institution that is statutorily required to have a conduct review committee.

7.2 Enterprise-Wide Conduct Compliance

7.2.1 One of the HSBC *Risk Management Framework* (“RMF”) objectives is to ensure that HSBC delivers fair outcomes to its customers and maintains the orderly and transparent operation of financial markets. As specified in the RMF, this objective is supported by HSBC’s Conduct framework, which provides a set of 15 Global Conduct Outcomes, organized under the following the following Conduct Pillars:

- (a) Conduct Pillar 1: Strategy and Business Models: Our strategy, business models, plans, and decisions always aim to deliver fair treatment for customers and not disrupt market integrity.
- (b) Conduct Pillar 2: Culture and Behaviours: Our culture supports our people, empowers them and rewards them for consistently doing the right thing for our customers and markets and always learning from any mistakes.
- (c) Conduct Pillar 3: Customers: We know our customers and understand their needs; we deliver appropriate, competitive and understandable products, supported by efficient customer service.
- (d) Conduct Pillar 4: Markets: We seek to identify and prevent actions and behaviours that can result in market misconduct whilst ensuring we execute transactions promptly and efficiently and safely handle any information we have.
- (e) Conduct Pillar 5: We carefully manage and oversee the way we treat customers, ensuring it is fair and that we uphold market integrity; we always maintain timely, open and transparent engagement with our regulators.

7.2.2 The Committee is responsible for:

- (a) Overseeing the delivery and embedding of the Global Conduct Outcomes by the Bank and its subsidiaries on a consolidated basis. As further specified in the RMF, this is governed by a three lines of defence approach, which includes ultimate ownership of delivery of the Global Conduct Outcomes by the first line of defence, independent oversight and challenge of the first line by the second line of defence, and independent assurance by Internal Audit as the third line of defence.
- (b) Overseeing the management of compliance with any future regulatory requirements or guidelines related to Conduct in accordance with the three lines of defence approach specified above.

7.2.3 The Committee’s oversight responsibilities specified above are supported by the following minimum activities:

Quarterly: Reviewing consolidated results, as available, from:

- (a) Themes and/or trends from sales oversight activities including customer complaints, survey results; mystery shops results, sales quality reviews and sales practices oversight activities.
- (b) Employee surveys and exchange sessions, Internal Audit reviews, as well as whistleblowing and employee personal conduct cases.
- (c) Evidence generated by oversight activities for financial market trade surveillance and the management of conflicts of interest.

- (d) Reporting from the first line of defence Conduct “Management Information” (MI) scorecards to risk management governance forums.

Annually: Receiving an overview of how the Global Conduct Outcomes have been embedded within the business and an outline of any proposed future plans, as reflected in the year-end assessment of the achievement of the Conduct performance objective on the Chief Executive Officer performance scorecard.

7.4 Responsible Persons

The Committee is responsible for overseeing OSFI Guideline E-17: *Background Checks on Directors and Senior Management of FREs* and shall:

- 7.4.1 Approve significant amendments to the Assessment Policy of Responsible Persons;

- 7.4.2 Where it is inappropriate for another person in the Bank to make the determination, determine whether an individual is suitable or possesses sufficient integrity for a position and, if not, ensure that:

- (a) such an individual does not hold a Responsible Person position, or
- (b) that adequate measures are taken to manage the risk arising from misconduct or mismanagement, such as redefining the responsibilities of the position or removing a conflict that applies to the duties of that position; and

Receive senior management concerns regarding:

- 7.4.3
 - (a) the suitability and integrity of a potential or existing Responsible Person, or
 - (b) the manner in which the Assessment Policy of Responsible Persons is being implemented.

7.5 Further Responsibilities under the *Bank Act*

- 7.5.1 The Committee shall monitor the Bank’s compliance with, and review and approve any material amendments to, procedures established for:

- (a) Identifying and resolving potential conflicts of interest, as well as restricting the use of confidential information;
- (b) Disclosing information to customers as required by the *Bank Act*; and
- (c) Handling complaints from persons who requested or received products or services in Canada from the Bank or its subsidiaries.

- 7.5.2 The Committee shall also satisfy itself that the procedures established for disclosing information to customers and for handling complaints are being adhered to by the Bank.

7.6 Further Conduct-related Responsibilities

The Committee may request reports and information from any line of business, Function, or executive committee and may routinely receive reports about:

- (a) the Bank’s and its subsidiaries’ compliance as described in these Terms of Reference; and
- (b) relevant industry best practice.

The Committee will perform other related tasks or review other topics as directed by the Chair or the Board.

8. Other responsibilities

8.1 Certificates and Assurances (Escalation)

8.1.1 As the Bank is a Principal Subsidiary of HSBC Holdings plc:

- (a) To provide half-yearly certificates to the Group Audit Committee and Group Risk Committee, in the form required by each of the Group Audit and Risk Committee; and
- (b) To take action, provide documentation or assurances as requested by the Group Audit/Risk Committee including: copies of minutes, periodic certifications, adopting best practice, being forthcoming in sharing information, and interacting with the Group Audit/Risk Committee and/or its Chair on a regular basis.

8.2 Annual Review of Terms of Reference and Committee Effectiveness

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

The Committee shall report to the Board and inform the Chair of the Group Risk Committee how the Committee has discharged its responsibilities and will make recommendations on any action(s) needed to resolve concerns or make improvements.

8.3 Material Deviations From Core Terms of Reference

Material deviations from the Group Core Terms of Reference require the endorsement from the Group Audit/Risk Committee.

Notwithstanding the paragraph above, any deviation from the Group Core Terms of Reference that is a consequence of statutory or regulatory requirements taking precedence over the Group Core Terms of Reference, needs to be notified to the Board of the Bank and the Group Audit/Risk Committee.

8.4 Responsibilities of Subsidiary Audit and Risk Committees

The Committee shall (a) review the composition, powers, duties and responsibilities of any audit/ risk committee of the Bank's subsidiaries, (b) oversee the implementation of mechanisms to facilitate the communication and escalation from such subsidiary company 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, and (d) discuss such matters as the Committee deems appropriate with the chair or other members of such subsidiary committees.

8.5 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 finance, audit, compliance and risk management functions.

8.6 External Advisers

The Committee may retain special counsel, advisers, experts, or other consultants to consider from time to time 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.

8.7 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.