

**HSBC USA INC.  
and  
HSBC TRUST COMPANY (DELAWARE), N.A.**

**CHARTER OF THE  
AUDIT COMMITTEE**

**I. Committee Purpose**

The Audit Committee (the “Committee”) is appointed by the Boards of Directors of HSBC USA Inc. (the “Corporation”) and HSBC Trust Company (Delaware), N.A. (the “Bank”) and is responsible, on behalf of the Boards, for oversight and advice to the Boards with respect to:

- 1) Integrity of the Corporation’s/Bank’s financial reporting processes and effectiveness of systems of internal control over financial reporting;
- 2) Effectiveness and performance of the Corporation’s/Bank’s Internal Audit Department; and
- 3) Qualifications, independence, performance and remuneration of the Corporation’s/Bank’s independent public registered accounting firm.

Inherently, internal control processes should provide assurance about reliability of material financial information throughout the Corporation/Bank, including information used for management analyses and regulatory reporting, but such assurance is defined and tested primarily with respect to financial statements.

**II. Committee Composition and Meetings**

The Committee shall consist of not less than three independent, non-executive Directors, who, with respect to the Bank, satisfy the requirements set forth in 12 C.F.R. § 363.5. The Board of Directors may from time to time appoint additional members to the Committee that it has determined to be independent. The appointment of the Chair and all Committee members shall be made by the Board of Directors upon recommendation of the HSBC North America Holdings Inc. Nominating and Governance Committee and shall be subject to endorsement by the HSBC Holdings plc (“Group”) Audit Committee. All Committee members shall be financially literate as determined by the Board. At least two members shall have “banking or related financial management expertise” pursuant to 12 C.F.R. § 363.5, which may be satisfied by meeting the “audit committee financial expert” requirement as defined by the U.S. Securities and Exchange Commission.

The Committee shall meet with such frequency as it may consider appropriate (but in any event not less than four times a year) and shall meet periodically, but not less than annually, with the senior internal auditing executive and the independent auditor in executive sessions. If the number of Committee members is odd, quorum to transact business will be a majority of Committee members. If the number of Committee members is even, a quorum to transact business will be one-half of the Committee members.

Each year, a schedule of matters to be considered by the Committee at its scheduled meetings will be prepared, and may be amended from time to time, to ensure Committee compliance with this Charter. The Secretary of the Committee shall be the Company Secretary or his/her nominee and shall produce materials and minutes of all meetings and the Committee shall make regular reports to the Board on all its activities since its last report. The Committee shall also provide information believed to be pertinent to the performance of responsibilities of other committees of the Board to those committees as appropriate. 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 attainment of its objective.

### **III. Committee Responsibilities**

The Committee shall have the following responsibilities, powers, discretions and authorities:

#### Financial Reporting

- 1) To monitor financial statements of the Corporation/Bank, reviewing any significant financial reporting judgments contained in them. In so doing, the Committee shall review and discuss matters with management, internal audit and the independent auditors, and shall focus particularly on:
  - the critical accounting principles, policies and practices, including changes to accounting policies and practices;
  - significant judgments;
  - significant adjustments and unrecorded adjustments resulting from the independent auditor's review;
  - the going concern assumption and any qualifications;
  - compliance with accounting standards;
  - management's assessment of compliance with any securities exchange listing or other legal requirements in relation to financial reporting;
  - regulatory guidance on disclosure of areas of special interest;
  - comments letters from regulatory authorities that pertain to disclosures or could impact financial results or reporting;
  - matters brought to the Committee's attention by the Corporation's/Bank's independent auditors;
  - financial reporting and related internal controls;
  - the internal audit department of the Corporation/Bank and its subsidiaries that could impact the integrity of the Corporation's/Bank's financial statements; and
  - significant tax positions and reserves related to uncertain tax positions.

The Committee shall consider any significant or unusual items that are, or may need to be, highlighted in the financial reports and shall give due consideration to any such matters raised by the staff responsible for the accounting and financial reporting function, the Head of Internal Audit, Head of Risk Management, Heads of Regulatory and Financial Crimes, Compliance, General Counsel or the independent auditor.

- 2) To review the Corporation's/Bank's financial and accounting policies and practices.
- 3) To review and discuss with management, internal audit and the independent auditors the annual financial statements of the Corporation/Bank, including, in the case of the Corporation, critical accounting policies and disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and to recommend to the Corporation's Board whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K.
- 4) To review and discuss with management, internal audit and the independent auditors the Corporation's quarterly financial statements prior to the filing of each Quarterly Report on Form 10-Q, including the results of the independent auditors' review of the quarterly financial statements and disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- 5) To review and discuss with management, internal audit and the independent auditor the Bank's annual and quarterly financial statements.
- 6) The Corporation to provide half-yearly certificates to the Audit Committee of HSBC North America Holdings Inc., in the form required by the Audit Committee of HSBC North America Holdings Inc., that the Committee has no reason to believe that the information contained in the Corporation's financial statements included in Forms 10-K and 10-Q has not been fairly stated, and such other matters as may be agreed from time to time. The certification provided shall include a representation as to whether Committee members are considered to be independent.
- 7) To discuss with management generally the parameters and manner of presentation of financial information and guidance provided to rating agencies. The Committee need not discuss in advance the particulars of any financial information or guidance provided to the rating agencies.
- 8) To review and discuss with management, including the Internal Audit Department, as well as the independent auditor, the adequacy and effectiveness of the Corporation's/Bank's internal financial control system relating to financial reporting and the Corporation's/Bank's disclosure controls and procedures, and management reports thereon. The Committee will endorse the content of any statement relating to internal controls over financial reporting in the financial statements. In its review of adequacy and effectiveness of the Corporation's/Bank's internal financial control system, the Committee will consider the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions, their training programs, budgets and succession planning for key roles in the functions.
- 9) To maintain and periodically review procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- 10) To receive an annual report, or such other reports from time to time as may be required by applicable laws and regulations, from the Chief Executive Officer and Chief Financial Officer to the effect that such persons have disclosed to the Committee and to the independent auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Corporation's/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 Corporation's/Bank's internal controls over financial reporting.
- 11) To report to the Chief Risk Officer and Chief Financial Officer any significant actual, suspected or alleged fraud (involving misconduct or unethical behavior related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee.

#### Internal Audit

- 12) To receive regular reports from the Internal Audit Department concerning major findings of internal audits.
- 13) To review and approve the Internal Audit plan and execution. To review the budget, risk assessment methodology and organizational structure of the Internal Audit Department. In its review of adequacy and effectiveness of the Corporation's/Bank's Internal Audit Department, the Committee will consider the adequacy of resources, professional qualifications and experience of staff of the Internal Audit Department, their training programs, budgets and succession planning for key roles in the function.
- 14) To review, on at least an annual basis, and routinely monitor the effectiveness of the Internal Audit Department and the coordination between the internal and independent auditors, and obtain assurance, on at least an annual basis, that the Internal Audit Department has appropriate standing within the Corporation/Bank and is free from constraint by management or other restrictions.
- 15) To approve the appointment of the Chief Audit Executive ("CAE"), the annual CAE's key objectives, performance review and compensation.
- 16) To consider major findings of compliance testing and of major internal investigations, including in respect of internal control over financial reporting matters, and assess management's response, and to receive reports regarding any fraud, regardless of materiality, that involves management or other employees who have a significant role in the Corporation's/Bank's internal controls over financial reporting.
- 17) To periodically review and approve the Internal Audit Charter.

## Independent Auditor

- 18) To review the terms of engagement of the independent auditor and to appoint the independent auditor, subject to acknowledgment by the Boards and ratification by the Corporation's/Bank's common shareholder.
- 19) In accordance with procedures approved by the Committee, and taking into account the HSBC Group policy and relevant guidance regarding the provision of non-audit services by the independent audit firm, to approve all fees to be paid to the independent auditor and to approve in advance any auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor. The Committee will employ standards for non-audit services that are no less restrictive than Group policies. Preapproval authority may be delegated to one or more members of the Committee. As part of the approval required by this paragraph, the Committee (or its delegate) shall require written assurance that such service and fees have been approved in accordance with the HSBC Guidelines for Services Performed by Independent Auditors as in effect from time to time.
- 20) To review and monitor the qualifications, competence, objectivity, effectiveness of the audit process and independence of the independent auditor, which review shall include review of a report from the independent auditor at least annually regarding: (a) the independent auditor's internal quality control procedures; (b) the independent auditor's self-assessment and related processes regarding its independence from the Corporation/Bank; (c) any material issues raised by its most recent quality control review, or a peer review of the auditor, or by any inquiry or investigation by government or professional authorities within the preceding five years with respect to one or more independent audits by the independent auditor; (d) any steps taken to deal with any such issues; and (e) all relationships between the independent auditor and the Corporation/Bank.
- 21) To review and discuss with the independent auditor the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, including general approach to the audit, nature and scope of the audit and reporting obligations including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from its interim reviews and final audits, major judgmental areas (including all critical accounting policies and practices used by the Corporation/Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and stock exchange and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).
- 22) To review the independent auditor's progress on the audit, management letter, including any material issues raised to management in respect of the accounting records, financial accounts

or systems of internal control and management's responses. The Committee will require a timely response and monitor the status of action taken in response to the findings of the independent auditor, including in its management letter. The Committee shall review management representation letters to the independent auditor to determine that the independent auditor is advised of any significant deficiencies, as well as material weaknesses in internal controls of which the Committee is aware. Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Corporation's/Bank's Risk Committee as appropriate.

- 23) To oversee the rotation of the lead (or coordinating) audit partners having primary responsibility for the audit and the audit partner responsible for reviewing the audit, as required by law.
- 24) To comply with the Corporation's/Bank's policy for the hiring of partners, directors and employees or former partners, directors and employees of the independent auditor and to review the quarterly reports regarding any such persons hired by the Corporation/Bank or its subsidiaries. Such policies shall be at least as restrictive as Group policies.

#### Other

- 25) To consider any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative, and assess management's responses.
- 26) To review such information as the Corporation's Disclosure Committee may request from time to time.
- 27) To review with senior management, including the Head of Tax, the processes for identifying material tax issues, the uncertain tax positions and the adequacy of reserves corresponding to uncertain tax positions.
- 28) To meet in Executive Session with the independent auditor and with the CAE at least twice each year to discuss any unresolved issues or concerns.
- 29) To report to the Board on the matters set out in this Charter and how the Committee has discharged its responsibilities.
- 30) Where applicable, to review the composition, powers, duties and responsibilities of any audit committees of the Corporation's/Bank's subsidiaries and extracts of the minutes of meetings of those committees, and to discuss such matters as the Committee deems appropriate with the chair or other members of such subsidiary audit committees. The Audit Committee will review the charters for adoption by such committees and approve material deviations from such core terms.
- 31) In its discretion, to retain special counsel, advisors, accounting experts, or other consultants and to consider from time to time any other matters which the Committee believes are required

- of it in keeping with its responsibilities. In its discretion, the Committee may obtain such professional external advice as it shall deem appropriate to take account of relevant risk experience outside the Corporation/Bank and challenge its analysis and assessment. Any such appointment shall be made through the Secretary, who shall be responsible, on behalf of the Committee, for the contractual arrangements and payment of fees by the Corporation/Bank.
- 32) To engage in an annual self-assessment with the goal of continuing improvement, and to review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Boards for approval.
  - 33) As requested by the Office of the Comptroller of the Currency (“OCC”), to meet with examiners from the OCC to discuss findings of OCC reviews of the Bank, including the OCC’s conclusions regarding the Bank’s internal audit function.
  - 34) To perform any other duties or responsibilities expressly delegated to the Committee by the Boards from time to time, to provide the Boards with such assurance as it may reasonably require regarding the reliability of the Corporation’s/Bank’s financial information and to consider and undertake such tasks or matters as the Chairman of the Board may request from time to time.
  - 35) In its discretion, to retain special counsel, advisors, accounting experts, or other consultants and to consider from time to time any other matters which the Committee believes are required of it in keeping with its responsibilities. In its discretion, the Committee may obtain such professional external advice as it shall deem appropriate to take account of relevant experience outside the Corporation and challenge its analysis and assessment. Any such appointment shall be made through the Secretary, who shall be responsible, on behalf of the Committee, for the contractual arrangements and payment of fees by the Corporation.

The Committee will provide to the Board such additional assurance as the Board may reasonably require regarding the reliability of financial information submitted to it. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from any audit committee, risk committee or other committee which has responsibility for the oversight of risk within the Corporation/Bank.

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

Where the Committee’s monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board of Directors on action needed to address the issue or to make improvements and shall report any such concerns to the Audit Committee and/or Risk Committee of HSBC North America Holdings Inc., as appropriate.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's/Bank's financial statements are complete and fairly presented in all material respects in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations or to otherwise assure compliance with laws and regulations or codes of ethics that apply to the Corporation/Bank and its subsidiaries.

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