

## HSBC USA INC.

### HSBC NORTH AMERICA CORPORATE GOVERNANCE STANDARDS

The following standards, together with the charters of committees of the Board of Directors (the “Board”), provide the framework for the corporate governance of HSBC North America Holdings Inc. (“HNAH”) and its primary subsidiaries HSBC Finance Corporation, HSBC USA Inc. and HSBC Bank USA, NA (each, the “Corporation”).

**These standards will be reviewed by the Board periodically in order to ensure the Corporation maintains “best practices” in corporate governance.**

For purposes of these standards:

**“Independent (non-executive) Directors”** shall mean Directors who are not employees of any entity within the HSBC Group and have been determined by the Board to be independent in character and judgment, free of relationships or circumstances that could affect, or appear to affect their exercise of independent judgment. *See Appendix A Independent Director Standards.*

**“Non-executive Directors”** shall mean members of the Board who are not employees of any entity within the HSBC Group, but do not meet the Independent Director Standards.

**“Executive Directors”** shall mean members of the Board who are employees of any entity within the HSBC Group.

#### **Powers of the Board**

The Board is responsible for overseeing the business of the Corporation, and may exercise all the powers of the Corporation, subject to applicable laws and regulations and the Certificate of Incorporation or Articles of Association, as applicable.

#### **Role of the Board and Management**

The Board may delegate any of its powers and authorities to any Directors holding executive office or to any committee consisting of one or more Directors. The Board delegates responsibility for management and day-to-day operation of the business to the HNAH Executive Committee (“EXCO”), and the EXCO delegates oversight and decision-making and management authority with respect to each Business and Function to the respective Head of each such Business and Function in accordance with responsibilities assigned by the Corporation’s Chief Executive Officer (“CEO”).

The conduct of the Corporation’s business under the direction of the CEO and the EXCO is subject to the oversight of the Board, all with the purpose of enhancing long-term value of the Corporation to HSBC Holdings plc (“HSBC”). The Board shall provide leadership to the Corporation within a framework of appropriate controls that are designed to assess and manage risk.

The Board has responsibility for governing the affairs of the Corporation, including, to:

- contribute to and endorse business strategy formulated by management and HSBC;
- provide input and approve the annual operating and capital plans, strategic plan, and risk appetite, as applicable, proposed by management;
- monitor the implementation of strategy by management and the Corporation's performance relative to approved operating and capital plans, risk appetite and performance targets;
- lead the implementation of HSBC's values and business principles and compliance with Group standards and policies throughout the Corporation;
- review and provide input with respect to proposed variable compensation award funding and specific award proposals for senior executives of the Corporation;
- with HSBC's endorsement, appoint the CEO;
- review succession planning for the CEO, Chief Risk Officer, Head of Internal Audit and their direct reports, and other potential successors, and receive updates on leadership talent and development;
- review and provide input to HSBC concerning evaluation of the CEO's performance, at least annually;
- review and approve annually the Corporate Governance Standards and the Corporate Governance Framework, as applicable, and monitor compliance with the Standards and the Framework;
- review and approve annually the Risk Governance Framework, as applicable, and monitor compliance with the Risk Governance Framework;
- review and approve a three-year strategic plan for the Corporation, as applicable, and monitor at least annually management's efforts to implement the plan;
- assess and monitor the major risks facing the Corporation consistent with the Board's responsibilities to the Corporation's ultimate parent, HSBC; and
- review the effectiveness of the risk management and internal controls structures designed by management to ensure compliance with applicable law and regulation, HSBC policies, ethical standards and business strategies.

In all actions taken by the Board, the Directors will exercise their business judgment in what they reasonably believe to be in the best interests of the Corporation. In discharging

that obligation, Directors may rely on the honesty and integrity of the Corporation's management, its outside advisors and independent auditors. Management is expected to be loyal to the Corporation, implement approved business strategy, appropriately resolve day-to-day operations issues, keep the Board informed, and maintain and promote high ethical standards while seeking to maximize returns to the Corporation within the risk tolerance as agreed with HSBC. Directors must consider:

- (1) the likely consequences of any decision in the long term;
- (2) the interests of the Corporation's employees;
- (3) the need to foster the Corporation's business relationships with suppliers, customers and others;
- (4) the impact on the Corporation's operations on the community and the environment; and
- (5) the desirability of the Corporation maintaining a reputation for high standards of business conduct.

### **Matters Reserved to the Board**

The Board reserves for itself the responsibilities set forth below, subject to any resolutions of the Board, or reservation to the Board by law or the Corporation's Certificate of Incorporation or Articles of Association, as applicable. Only the Board may make Senior Executive Appointments, take Routine Annual Actions, resolve Policy Issues or approve Significant Transactions as defined below:

- "*Senior Executive Appointments*" include (i) appointments to the positions of Chairman (if an executive), President, Chief Executive Officer, the Policy Making Officers of the Corporation which include the Chief Financial Officer, Chief Risk Officer, Head of Regulatory Remediation, Head of Financial Crime Compliance, Chief Operating Officer, Head of Human Resources, Head of Internal Audit, General Counsel, Corporate Secretary, the heads of the principal business lines and principal business functions, and heads of certain other control functions as may be determined by the Board; (ii) direct reports of Policy Making Officers with an internal HSBC Global Career Band of 2 or above; and (iii) other appointments as required by law or regulation.
- "*Routine Annual Actions*" include review and approval of an Annual Operating Plan, Capital Plan, Strategic Plan and Risk Appetite Statement, as applicable. In addition, the Board will review and approve the Comprehensive Capital Analysis and Review ("CCAR") and Dodd Frank Act Stress Testing ("DFAST") submissions to regulatory authorities, as applicable.
- "*Policy Issues*" are activities, transactions, events and functions that:

- (i) may adversely affect the Corporation's and/or its subsidiaries' and affiliates' reputation, standing or rating with investors, regulators, rating agencies, the public or other relevant constituencies;
  - (ii) involve or impact approved operating plans, strategic focus or objectives that have been communicated to the Board, such as the establishment of new significant business ventures outside the scope of the Corporation's current business operations;
  - (iii) may result in significant publicity;
  - (iv) will have or has potential to have a direct and material impact on the Corporation's existing or targeted capital structure or operating results;
  - (v) involve the acquisition of stock or substantially all of a business that is publicly traded in any jurisdiction;
  - (vi) would result in any settlement of any legal or regulatory action that names the Corporation or any of its subsidiaries and by which the Corporation or such subsidiary will admit to the violation of any material law or regulation;
  - (vii) relate to any transaction, arrangement or relationship, or series of similar transactions, arrangements or relationships, requiring approval pursuant to HNAH's Policy for the Review, Approval or Ratification of Transactions with Related Persons; or
  - (viii) involve or impact Risk Appetite Limits approved by the Board, as applicable, or that would revise the approved Risk Appetite.
- "*Significant Transactions*" include matters that may be in the "ordinary and necessary course of business" but are significant to the Corporation due to the size of the transaction, expenditure, or risk exposure to a counterparty, in a geographic region or to a new line of business or product. Such matters include:
    - Any equity investment in any one enterprise or capital contribution to any one subsidiary in any twelve-month period that would exceed \$50 million, unless it is: contemplated by the Corporation's then current investment policy, an investment resulting from the workout of any loan or investment made by the Corporation or its subsidiaries, or an investment held by one of HNAH's subsidiaries;
    - Any acquisition of assets consisting solely of receivables or other assets of a type currently owned by the Corporation in one

transaction or a series of related transactions in any twelve month period if the book value of such assets or the amount paid for such assets exceeds ten percent of the total assets of the Corporation on a consolidated basis as of the end of the most recent fiscal quarter for which the Corporation's financial statements are available;

- Any acquisition of assets of a type not contemplated by the previous paragraph in one transaction or a series of related transactions in any twelve-month period if the book value of such assets or the amount paid for such assets exceeds five percent of the total assets of the Corporation on a consolidated basis as of the end of the most recent fiscal quarter for which the Corporation's financial statements are available;
- Any disposition of a product line, line of business or subsidiary in one transaction or a series of related transactions in any twelve-month period if the disposition pertains to assets with an aggregate book value that exceeds five percent of the total assets of the Corporation on a consolidated basis as of the end of the most recent fiscal quarter for which the Corporation's financial statements are available;
- Any disposition of assets not contemplated by the previous paragraph in one transaction or a series of related transactions in any twelve-month period if the book value of such assets or the amount paid for such assets exceeds ten percent of the total assets of the Corporation on a consolidated basis as of the end of the most recent fiscal quarter for which the Corporation's financial statements are available;
- The creation or acquisition of any entity or new business or the entry into any new geographic area, which has, or is projected to have: (i) if the creation or acquisition relates to a lending business, managed receivables with an aggregate book value in excess of five percent of the total assets of the Corporation on a consolidated basis or, (ii) if the creation or acquisition does not relate to a lending business, tangible assets in excess of \$50 million, in either case on the closing date of the transaction or the date of implementation or within one year thereafter;
- Any acquisition of a business or part of a business that requires the Corporation to assume unfunded employee benefit obligations in excess of \$50 million;
- With respect to HSBC Finance Corporation, approval by its Board of the writing of any new loans to retail customers or non-HSBC

entities, the acquisition of any receivables or other assets or conduct of any new business; and

- The execution of any contract relating to critical services or activities that poses significant residual risk to HNAH or its subsidiaries as rated by Third Party Risk Management as an “A” or “B” risk and for which the projected cumulative annual cost is in excess of \$50 million.

### **Composition, Qualification and Term**

The Board should have the appropriate balance of skills, experience, independence and knowledge of the Corporation to enable it to discharge its duties and responsibilities effectively. In accordance with the Bylaws of the Corporation, the size of the Board shall consist of the number of Directors established by the Board from time to time. In the case of HUSI and HSBC Bank USA, NA the number of Directors shall not be less than five nor more than twenty-five. A majority of the Board, and in the case of HSBC Bank USA, NA, a minimum of two (2) Directors, shall be independent non-executive Directors.

Each non-executive Director will be appointed for an initial three-year term. Upon completion of the initial three-year term, Directors may serve two additional three-year terms subject to (i) election by the shareholder, (ii) rigorous review by the Board of whether there are relationships or circumstances that may affect, or could appear to affect, the Director’s exercise of independent judgment, and (iii) the Board taking into account the need for progressive refreshing of the Board. Thereafter, the Director may serve further one-year terms at the invitation of the Board after a thorough review of the Director’s continued independence. Executive Directors will serve one-year terms.

Appointments of non-executive Directors shall expire at the first annual meeting of the shareholders which falls either on or following the third anniversary from the appointment date.

The Corporation maintains a mandatory retirement policy for non-executive directors whereby retirement is required as of the annual meeting of the shareholder after the date on which a Director attains the mandatory retirement age of 72.

Executive Directors will resign from the Board when their employment with HSBC and its subsidiaries ends. With respect to any Director, the Board may defer retirement from the Board if business conditions or other circumstances, in the determination of the Board, warrant such action.

A non-executive Director is expected to offer to resign from the Board whenever there is (i) a major change in his or her career position or status (unless such change in position or status results from normal retirement), (ii) a change in his or her status as an “Independent Director” or (iii) a conflict of interest arises that could reasonably be expected to lead to reputational risk for the Corporation and/or HSBC as a whole. The

Chairman, in consultation with the Corporation's CEO and HSBC senior executive management, shall determine whether to present the offer of resignation to the Board for action. If presented, the Board has discretion, after consultation with HSBC management, to either accept or reject such resignation.

### **Director Independence and Conflicts of Interest**

Directors shall not be a director, consultant to or employee of any direct competitor of the Corporation (i.e., a company that has a business segment offering products or seeking customers served by any business segment of the Corporation). To avoid potential conflicts of interest, senior executive officers of the Corporation (i.e., the Chairman, CEO, or any direct report to the CEO) may not serve on the board or as a trustee of a company or institution that employs any non-executive Director of HSBC or the Corporation (i.e., reciprocal directorship).

In the event a non-executive Director becomes aware of any potential or actual conflict of interest or circumstances that could lead to reputational risk for the Corporation and/or the HSBC Group, he/she should disclose these to the Chairman and the Company Secretary as soon as apparent and the matter will be referred to the Board to determine if a conflict or reputational risk requires resignation or any other action. If the potential or actual conflict of interest may arise from a new appointment or a change in an existing appointment, the Director shall not accept the new or changed appointment without the agreement of the Board.

### **Time Commitment**

A non-executive Director shall advise the Corporate Secretary whenever there is a change to the Director's circumstances that will have a significant impact on the time commitments of the Director, including any additional directorships accepted. The Nominating and Governance Committee shall consider that information in recommending the slate of directors for election at the next shareholder meeting.

### **Director Standards**

Each Director, while representing the best interests of HSBC and the Corporation, shall:

- promote HSBC's values and business principles and compliance with Group standards and policies throughout the Corporation in performing their responsibilities;
- have the ability to spend the necessary time required to function effectively and satisfy the appropriate duty of care as a Director;
- develop and maintain a sound understanding of the strategies, businesses and risks related to the Corporation;

- diligently review all Board materials and provide active, objective and constructive participation with appropriate credible challenge at meetings of the Board and its committees;
- assist in positively and affirmatively representing HSBC to the world;
- be available to advise and consult on key organizational changes and to counsel on corporate issues;
- develop and maintain a solid understanding of global economic issues and trends that are pertinent to the operations of the Corporation; and
- seek clarification from experts retained by the Corporation (including employees of the Corporation) to better understand legal, compliance, risk, financial and business issues affecting the Corporation.

### **Meetings**

Annually, all Directors shall be provided with a schedule identifying all regularly scheduled Board and committee meetings for the next succeeding year and as soon as practicable, for the second succeeding year. There will generally be six regularly scheduled meetings of the Board each year. At least once per year, the Independent Directors shall meet in executive session.

Personal attendance of the Directors at Board and Committee meetings is expected. The use of current technology to facilitate attendance should be requested by Directors only in extraordinary situations that prevent a Director from attending a meeting in person.

While meetings are in session, Directors should not access electronic devices concerning matters that are not under discussion at the meeting.

The Corporate Secretary and the Chairman, in consultation with the CEO will establish the agenda for each Board meeting. The Chair of a Committee in consultation with the Corporate Secretary and senior management will develop the agenda for each Committee meeting. Directors are encouraged to suggest to the Chairman topics for inclusion on future agendas.

If the total number of Directors on the Board is odd, a quorum to transact business at the meeting will be a majority of the Directors. If the total number of Directors is even, a quorum will exist if one-half of the Directors are present. If at any meeting of the Board there is less than a quorum, the majority of those present may adjourn the meeting until a quorum is present. A quorum must be present for any vote taken to be effective. In the event a Director has a conflict of interest, that Director must recuse him or herself from discussing or voting on any matter related to such conflict.



At each Board and Committee meeting, the Directors will be provided the opportunity to question, respond to and advise management on all matters presented as well as other topics of relevance to the Corporation.

Information with respect to any Board or Committee meeting should be sent to Directors at least five (5) days in advance of the meeting, if practicable. Materials relating to any matter in which a Director has a personal interest will be withheld from that Director. Financial statements included in this information should be condensed with commentary focused on important issues, trends or variances, noting the perceived reasons therefor and the opportunities or risks, if any, which may result.

Minutes of all Board and Committee meetings shall be sent to all Directors unless it is legally required that such minutes be kept confidential or such minutes relate to a matter in which a Director has a personal interest.

### **Committees**

The Committee structure of the Board shall be reviewed annually. The Board will have Audit, Risk and Chairman's Committees. Additionally, the HNAH Board will also have the Nominating and Governance and the Compliance, Conduct and Fiduciary Committees and the HSBC USA Inc. and HSBC Bank USA, N.A. Boards will also have the Compliance Committee. The Board may also appoint other ad hoc committees for limited purposes and duration as it deems appropriate. The Corporate Secretary and the Chairman, in consultation with the CEO, shall make recommendations to the Board regarding membership on the Committees. The Board will appoint and remove all Committee members and the Chair of each Committee.

Each standing Committee of the Board shall adopt and approve a charter. Each such charter, and any amendments thereto, must be approved by the Board. At least annually, each Committee will review the appropriateness of its charter and evaluate and report on the satisfaction of its responsibilities to the Board.

The Chair of each Committee, in consultation with Committee members and senior management of the Corporation will determine the frequency and length of the meetings of the Committee.

Unless otherwise stated in a Committee charter, a quorum and the vote required at any Committee meeting shall be determined in the same manner as a quorum for a meeting of the Board as set forth above under the heading "Meetings".

### **Director Compensation**

Director compensation will be in the form of cash compensation. The amount of compensation to be paid to Directors will be determined by the Board in consultation with HSBC senior executive management and shall be within ranges approved by the Remuneration Committee of the Board of Directors of HSBC ("REMCO"), or as specifically approved by the REMCO.

## **Access to Senior Management and Independent Advisors**

Directors shall have free and full access to senior management and other employees of the Corporation. The CEO or Corporate Secretary may assist in arranging any contacts or meetings at a Director's request.

The Board and its Committees shall have the right at any time to retain independent outside financial, legal or other advisors and any expenses related thereto will be the responsibility of the Corporation.

## **Director Orientation and Continuing Education**

All non-executive Directors are required to attend an orientation program. Director orientation shall include written materials and presentations by senior management on HSBC's businesses and functions, strategic plans, significant financial, accounting and risk management issues, compliance programs, risk framework, management structure, executive officers and internal and independent auditors. Directors shall also be provided with written materials covering their responsibilities under UK and US law and the Corporation's Corporate Governance Framework.

All executive and non-executive Directors shall be required to attend continuing education and training programs. Education and training programs shall be provided or arranged by the Corporation and shall include: (i) the Corporation's products, services, lines of business and risks that have a significant impact on the Corporation; (ii) laws, regulations and supervisory requirements applicable to the Corporation; and (iii) other topics identified by the Board as pertinent to effective oversight. Directors may request reimbursement of attendance fees and travel related expenses for attendance at training sessions provided by third parties.

Directors are expected to regularly review their professional and educational development needs and to continually update their skills and knowledge of the roles of Directors, the Corporation and its products and target markets.

## **Annual Evaluation**

Annually, the Board shall undertake a formal annual evaluation of its own performance and that of its Committees. The evaluation should consider how the Board works together as a unit and the balance of skills, experience, independence and knowledge of the Corporation and its businesses. The HSBC Bank USA, N.A. Board annual evaluation shall also include an evaluation of that Board's effectiveness in meeting the Office of the Comptroller of the Currency's Guidelines Establishing Heightened Standards for Certain Large Insured National Banks. The Chair of the HNAH Nominating and Governance Committee and Chairman, in consultation with the Corporate Secretary and the CEO shall determine the process to be followed in connection with the evaluation.

If appropriate, the Chairman shall also review and provide feedback to each Director regarding his/her effectiveness on the Board. The Corporate Secretary will assist the Chairman in discharging this responsibility, including through providing information on the Director's attendance at meetings and continuing education opportunities, and a third party may be engaged to also assist with the process. The non-executive Directors may also provide feedback to the Chairman concerning his or her performance as a part of the annual evaluation process of the Board.

**APRIL 2017**

**INDEPENDENT DIRECTOR STANDARDS**

The Board shall consider all relevant facts and circumstances in assessing the independence of Directors. As a foundation for such determinations, the Board will consider if the Director:

- has personal loans from the Corporation, other than mortgage loans, credit cards and charge cards made in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons;
- has been retained by the Corporation or any of its affiliates in the capacity of an employee or non-employee executive officer within the last five years;
- has received in the last three years or is currently receiving more than \$120,000 in direct compensation from the Corporation or any of its affiliates or is a member of any performance related compensation plan, any HSBC pension plan or is otherwise financially dependent on any HSBC company (other than for service on the Board of Directors of one or more HSBC subsidiaries, deferred compensation for prior service or benefits under a tax-qualified retirement plan);
- (i) is a current partner of a firm that is an internal or external auditor of the Corporation ;  
(ii) has an immediate family member who is a current partner of such a firm;  
(iii) has an immediate family member who is a current employee of such a firm and personally works on the Corporation's audit; or  
(iv) within the last three years, has been and has had an immediate family member who has been a partner or employee of such a firm and personally worked on the Corporation's audit within such time;
- has been an employee, partner, significant shareholder, or executive officer of any significant vendor or customer of the Corporation or any of its subsidiaries, or a pension, profit sharing or employee benefit plan sponsored by the Corporation that makes payments to, or receives payments from the Corporation in an amount that in any fiscal year exceeded the greater of \$1 million, or 2% of such entity's consolidated gross revenues within the last three years;
- has been an executive officer, director or trustee of a charitable organization in which the Corporation or any of its subsidiaries made contributions in any fiscal year that exceeded the greater of \$1 million, or 2% of the charitable organization's consolidated gross revenues;
- has an interest in any significant transactions or business relationships with the Corporation or its subsidiaries that are required to be disclosed by the rules and regulations of the Securities and Exchange Commission;

- represents a significant external shareholder other than HSBC;
- holds cross-directorships or has significant links with other directors through involvement with other companies or entities; and
- is a member of the immediate family of any person described above.

Immediate family members are the Director's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who share the Director's home.