HSBC InvestDirect Financial Services (India) Limited (HIFSL) Remuneration Framework

1. GOVERNANCE

   1.1. HIFSL's remuneration framework is reviewed and approved by the Board of HIFSL.
   1.2. The HIFSL remuneration framework must comply with the HSBC Group ("HSBC") remuneration policy as approved by the Remuneration Committee of HSBC Holdings plc ("RemCo), unless it thereby conflicts with the requirements of any local country regulations, in which case the local regulations prevail.

2. OBJECTIVES OF REMUNERATION FRAMEWORK

   2.1. As the quality and commitment of its human capital is deemed fundamental to HSBC's success, HSBC's stated strategy is to attract, retain and motivate the very best people. This strategy is referenced to the overall business strategy and the commercial environment.
   2.2. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long term objectives summarised in performance scorecards as well as adherence to the HSBC Values. Altogether, performance is judged, not only on what is achieved over the short and long term, but also on how it is achieved, as the later contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual scorecards are carefully considered to ensure alignment with the long term strategy of the Group. Actual levels of variable pay depend on the performance of the HSBC Group, its constituent businesses and the individual, taking into account competitive market practice and relevant regulator requirements.
   2.3. To ensure that the interests of HSBC and its employees are aligned with those of its shareholders, that HSBC's approach to risk management supports the interests of all stakeholders and that remuneration is consistent with effective risk management, HSBC requires a proportion of variable pay awards above certain thresholds to be deferred into awards of Restricted Shares.

3. REWARD STRATEGY

   3.1. A global reward strategy for HSBC has been approved by the Group RemCo. This strategy provides a framework for the RemCo in carrying out its responsibilities and includes the following key elements:
   (i) an assessment of reward with reference to clear and relevant objectives and with reference to adherence to the HSBC Values;
   (ii) a focus on total compensation (salary and variable pay) with variable pay (namely annual cash bonus and the value of long term awards) differentiated by performance;
   (iii) the use of considered discretion to assess the extent to which performance has been achieved rather than applying a formulaic approach which, by its nature, may encourage inappropriate risk taking and cannot cover all scenarios;
   (iv) as appropriate a significant proportion of variable pay to be deferred into HSBC Holdings plc Restricted Shares to tie recipients to the future performance of HSBC and aid retention; and
   (v) a total remuneration package (total compensation and benefits) which is competitive in relation to comparable organisations in each of the markets in which HSBC operates.

4. RISK ALIGNMENT

4.1. The variable pay pool takes into account performance which is considered within the context of the Risk Appetite Statement. This helps to ensure that the variable pay pool is shaped by risk considerations and any Group-wide notable events. The Risk Appetite Statement describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. It shapes the integrated approach to business, risk and capital management and supports achievement of the Group's objectives. In addition, the Group funding methodology considers the relationship between capital, dividends and variable pay to ensure the distribution of post-tax profits between these three elements is considered appropriate. Finally, the commercial requirement to remain competitive in the market and overall affordability are considered.

4.2. The Group Chief Risk Officer regularly updates the RemCo on the Group's performance against the Risk Appetite Statement. The RemCo uses these updates when considering remuneration to ensure that return, risk and remuneration are aligned. In addition, the Financial Crime Compliance function will provide input on significant events and internal audit findings in respect of AML issues.

4.3. Group-wide thematic reviews of risk are also carried out to determine if there are any transgressions which could affect the amount of current year variable pay or any instances where malus of previously awarded variable pay is required.

4.4. All variable pay and incentive schemes are also required to adhere to a set of policy principles and approval standards as defined in the Group Standards Manual. Under the terms of the Group Standards Manual, all plans require the approval of the Finance, Risk, Legal, Compliance and HR functions. The Finance function validates the achievement of relevant financial metrics (e.g. the definition of profitability from which bonus funding is derived).

5. DESIGN AND STRUCTURE OF REMUNERATION

5.1. Overview

(i) Reward is delivered via a combination of fixed and variable pay (salary, annual cash bonus and long term awards). The variable pay element is differentiated by performance. Taking into account the expected value of awards, the performance related elements of pay make up a considerable proportion of the total remuneration package for senior staff, whilst maintaining an appropriate balance between fixed and variable elements. Remuneration is structured to provide an opportunity for top quartile total compensation for higher levels of performance.

5.2. Salary

(i) All executive staff receive a salary to reflect their market value, responsibility and contribution to the Group. HSBC pays market competitive salaries with variable pay awards based on performance.

5.3. Annual bonus

(i) Rationale and eligibility criteria

(a) All executive staff are eligible for consideration of an annual bonus to reflect the extent to which annual objectives have been met, absolute and relative performance to peers and competitive market practice.

(ii) Performance measurement/assessment

(a) The annual bonus is designed to reward performance and is dependent on the achievement of financial and non-financial objectives which derive from those determined at the corporate Group level. This framework facilitates a rounded approach to objective setting. Individual performance is also reviewed against other risks specifically chosen such as credit, market, operational and information and security risks. It is also assessed against adherence to the HSBC Values.

(b) The determination of bonus pools is a fully discretionary process informed by various performance metrics (including performance in the context of the risk appetite framework), affordability (including cost and quantity of capital and liquidity considerations) and the commercial requirement to remain competitive in the market. HSBC's discretionary approach allows full flexibility in aligning bonus pools to business performance.

(c) Actual levels of pay will depend on the performance of the Group, of constituent businesses and of the individual, taking into account competitive market practice. The Group Management Board objectives are cascaded down to regions' and businesses' objectives in an aligned manner, thereby ensuring that return, risk and efficient capital usage shape reward considerations. This framework impacts on the level of individual remuneration received as achievement of such objectives is an important determinant of the level of variable compensation awarded. The Group Chief Risk Officer and the Risk function provide input into objectives, ensuring that key risk measures are included.

(d) Remuneration is carefully benchmarked against the market and internally to ensure that it is set at an appropriate level.

(iii) Deferral and vesting

(a) To ensure that the interests of HSBC and its employees are aligned with those of shareholders, and that the approach to risk management supports the interests of all stakeholders, a proportion of variable pay awards above certain thresholds is required to be deferred into HSBC Holdings plc Restricted Shares. Vesting of these shares is subject to continued employment (which may be terminated by HSBC in the event of material misconduct) and the delivered value will vary in accordance with the share price and dividend. Prior to vesting awards made are subject to amendment, reduction or cancellation at the full discretion of the RemCo.

(b) Vesting of deferred awards will be over an appropriate period as determined by the RemCo, in accordance with the risk framework.

(c) No employees are permitted to hedge their economic exposure to the equity price risk of unvested shares. Breach of this requirement will result in disciplinary action which may include clawback of deferred incentives and termination of employment.

6. MAPPING HSBC REWARD FRAMEWORK TO REQUIREMENTS IN THE COMPANIES ACT, 2013

Each required element and factor under clause 178 (4) in The Companies Act, 2013 is satisfied by the HSBC Reward Framework as mapped below:

6.1. the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully: See Paragraph 3.1 (v) of HSBC Rewards Framework

6.2. relationship of remuneration to performance is clear and meets appropriate performance benchmarks: See Paragraph 5.3 (ii) of HSBC Rewards Framework

6.3. remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals: See paragraph 3.1 (ii) and 5.1 (i) of HSBC Rewards Framework.