

## HANG SENG BANK LIMITED

### TERMS OF REFERENCE OF AUDIT COMMITTEE

#### 1. Purpose

The Board of Hang Seng Bank Limited (“**the Bank**”) has delegated responsibility to the Audit Committee (**the “Committee”**) and provided it with sufficient resources for the oversight of matters relating to financial reporting and internal controls, in particular, reviewing:

- 1.1 the integrity of the financial statements, banking disclosure statements, formal announcements and disclosures relating to financial performance;
- 1.2 the effectiveness of Internal Audit and the external audit process; and
- 1.3 the effectiveness of internal control systems, subject to input from the Bank’s Risk Committee.

#### 2. Membership

- 2.1 The Committee shall comprise at least three members, all of whom shall be Non-executive Directors, with a majority including the Chairman being Independent Non-executive Directors, or as otherwise required by the Rules Governing the Listing of Securities (**the “Listing Rules”**) on the Stock Exchange of Hong Kong Limited (**the “Stock Exchange”**).
- 2.2 The Chairman of the Committee shall be appointed by the Board from among the Independent Non-executive Directors.
- 2.3 Members of the Committee shall be appointed subject to endorsement by the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited (“**HBAP**”).
- 2.4 At least one member of the Committee shall have recent and relevant accounting, banking or 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 audit practices or financial management relevant to the financial services sector.
- 2.5 The Chairman and each member of the Committee shall be appointed for an initial term until the conclusion of their current term of appointment as a Non-executive Director. Subsequent additional terms of appointment to the Committee may be made subject to review and approval by the Board.

#### 3. Attendance

- 3.1 Only members have the right to attend Committee meetings. The Committee may invite any Director, executive, external auditor or other persons (including, but not limited to, the Chief Financial Officer, the Chief Risk and Compliance Officer (“**CRCO**”) and the Head of Audit) to attend the whole or part of 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.

- 3.2 The Committee shall meet separately with the external auditor and with the Bank's Head of Audit, or equivalent, at least twice each year without Management presence.

#### **4. Meetings and Quorum**

- 4.1 The Committee shall meet with sufficient notice and with such frequency and at such times as it may determine, subject to regulatory requirements.
- 4.2 The quorum for meetings is a majority of the members, including the Chairman (or their delegate from among the members).
- 4.3 The Secretary of the Committee is the Company Secretary and Head of Corporate Governance or their nominee, who shall support the Chairman and Committee members in the operation of the Committee and its meetings.
- 4.4 Following each Committee meeting, the Chairman shall report at the next Board meeting on the Committee's proceedings. The minutes of the meeting shall be presented by the Committee Chairman at the first scheduled Board meeting after their preparation.
- 4.5 The Secretary of the Committee shall produce such papers and minutes of the Committee's meetings as are appropriate and distribute them to all members of the Committee.

#### **5. Areas of responsibility**

Without limiting the generality of the Committee's purpose, the Committee shall have the following non-executive responsibilities, powers, authorities and discretions:

##### **5.1 Financial reporting and planning**

- 5.1.1 To monitor and critically assess the integrity of the financial statements of the Bank and its subsidiaries ("**HASE Group**"), banking disclosure statements (or equivalent disclosures as required by regulators) and any formal announcements and supplementary regulatory information relating to the Bank's financial performance;
- 5.1.2 To review, and consider changes to, significant accounting policies including policies and disclosure practices, as applicable;
- 5.1.3 To review, and report to the Board on, significant accounting judgements and adjustments;
- 5.1.4 To consider the effectiveness of model risk management for financial reporting;
- 5.1.5 To review going concern assumptions and any qualifications and provide confirmation to the Board of the Bank's profitability;
- 5.1.6 To review compliance with applicable accounting standards, the Listing Rules, corporate governance codes or standards, banking disclosure statements and other requirements relating to financial reporting, and report and provide assurances to the Board on the Bank's compliance;

- 5.1.7 To review disclosure that describes the work of the Committee and areas of special interest;
- 5.1.8 To review the annual financial resource plan, including annual budget, capital expenditure and business plans;
- 5.1.9 To review matters as advised by Internal Audit, any other function or the external auditor;
- 5.1.10 To review any significant or unusual items that may need to be highlighted in the annual report and accounts, or its local equivalent, and must give due consideration to any matters that have been raised by the Chief Financial Officer, CRCO, Head of Audit, Company Secretary and Head of Corporate Governance or the external auditor;
- 5.1.11 To review the adequacy of resources, staff qualifications and experience as well as succession planning, training programmes and budget of the Bank's accounting and financial reporting, Internal Audit and Environmental, Social & Governance performance and reporting functions;
- 5.1.12 advise the Board whether 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;
- 5.1.13 To review comment letters from audit regulatory authorities relevant to the scope of the Committee's responsibilities and activities; and
- 5.1.14 To deal with any other matters delegated by the Board from time to time.

## **5.2 Internal audit**

- 5.2.1 To review and, if appropriate, approve the Internal Audit Charter annually;
- 5.2.2 To oversee the work of Internal Audit and recommend to the Board the appointment and removal of the Bank's Head of Audit;
- 5.2.3 To monitor and assess the effectiveness, performance, resourcing, independence and standing of the Bank's Internal Audit team;
- 5.2.4 To consider major findings of internal investigations and Management's response;
- 5.2.5 To approve the Internal Audit budget and annual work plan (including material plan changes during the year);
- 5.2.6 To satisfy itself that the Internal Audit annual work plan is aligned to the key risks of the business;
- 5.2.7 To satisfy itself that there is appropriate co-ordination between Internal Audit and the external auditor; and
- 5.2.8 To request that the Management informs 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 and that feedback is received from them.

### 5.3 External audit

- 5.3.1 To be primarily responsible for making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, on the appointment, re-appointment and removal of the external auditor, and shall be directly responsible for the approval of the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor;
- 5.3.2 To oversee the implementation by the Management of the policy of the Bank, which is aligned with HSBC Group, on the engagement of external auditor to supply non-audit services, taking into account relevant regulatory requirements. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;
- 5.3.3 To approve in advance the supply of any non-audit services by the external auditor by (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 To review and monitor the external auditor's independence, objectivity and the quality and effectiveness of the audit process, considering relevant professional, regulatory and other requirements;
- 5.3.5 To oversee the rotation of audit partners and external auditor;
- 5.3.6 To review the external auditor's report on the progress of the audit, its management letter, any material queries raised by the external auditor to the Management (and the Management's responses); and ensure the Board will provide a timely response to the issues raised in the external auditor's management letter. Any material risk issues shall be referred to the Bank's Risk Committee, as appropriate;
- 5.3.7 To discuss with the external auditor the approach, nature, and scope of their audit and reporting obligations throughout the audit process including, as applicable:
- (a) any significant accounting and auditing problems and reservations;
  - (b) major judgemental areas;
  - (c) alternative accounting treatments together with the potential ramifications;
  - (d) any significant accounting adjustments;
  - (e) the going concern assumptions and viability statement;
  - (f) compliance with accounting standards, the Listing Rules and legal requirements;
  - (g) reclassifications or proposed additional disclosures; and
  - (h) any material changes in accounting policies and practices, any communications provided by the external auditor to the Management and other matters the external auditor wishes to discuss;
- 5.3.8 To oversee the implementation by the Management of HSBC Group policy for the engagement of former employees and contractors of the external auditor; and

- 5.3.9 To act as the key representative body for overseeing the Bank's relations with the external auditor.

#### **5.4 Internal controls**

- 5.4.1 To review the effectiveness of the Bank's and its subsidiaries' internal controls, with input from the Board and relevant Board Committees on controls relevant to their respective responsibilities, including (i) how effectively management is embedding and maintaining a strong internal control environment, and (ii) (together with the Risk Committee where appropriate) actions to remediate controls which are identified as not operating effectively;
- 5.4.2 To oversee the outputs from monitoring and assurance activities over the Bank's internal controls, including areas for enhancement;
- 5.4.3 To consider any findings of major investigations of internal controls, the Management's response and the conclusions of any testing carried out by the business line, risk function or the Head of Audit or external auditor;
- 5.4.4 To review all significant deficiencies and material weaknesses in the design or operation of internal controls, and associated remediation plans. Additionally, review other material control deficiencies in the broader control environment which are identified by the Management, Internal Audit or the external auditor; and
- 5.4.5 To review, and recommend for approval by the Board all internal control-related disclosures within the annual report and other reports required by applicable laws and regulations.

#### **5.5 Whistleblowing**

- 5.5.1 (a) To oversee and annually review the operation and effectiveness of the policy of the Bank, which is aligned with HSBC Group's policies and procedures, for capturing and responding to whistleblower concerns; (b) oversee the implementation of the relevant procedures to ensure confidentiality, protection and fair treatment of whistleblowers; (c) routinely review reports arising from the operation of the whistleblowing policies and procedures; and (d) satisfy itself that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and
- 5.5.2 To annually review the operation and effectiveness of the arrangements by which staff may, in confidence, raise concerns.

### **6. Operation of the Committee**

#### **6.1 Escalations**

The Committee shall escalate any matters that may have a material impact on the Bank or HBAP, to the Chair of HBAP Audit Committee or HBAP Audit Committee respectively.

## 6.2 Reporting and half-yearly certificates

The Committee:

- 6.2.1 shall provide half-yearly certificates to HBAP Audit Committee (in a form that is consistent with that required by the Group Audit Committee);
- 6.2.2 shall take action and provide documentation or assurances as requested by HBAP Audit Committee including: providing copies of minutes, periodic certifications, adopting best practice, being forthcoming in sharing information, and interact with the HBAP Audit Committee and/or its Chair on a regular basis; and
- 6.2.3 shall, in carrying out the responsibilities set out in these terms of reference, discuss any concerns on potential risks to the Bank for escalation, if appropriate, to HBAP Audit Committee.

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

- 6.3.1 The Committee shall review annually its terms of reference and its own effectiveness and recommend to the Board any necessary changes.
- 6.3.2 The Committee shall report to the Board and inform the Chair of HBAP Audit Committee how the Committee has discharged its responsibilities and will make recommendations on any action(s) needed to resolve concerns or make improvements.

## 7 Material deviations from Core Terms of Reference

Material deviations<sup>1</sup> from the HSBC Group Audit Committee Core Terms of Reference require the endorsement from HBAP Board or HBAP Audit Committee, as and when a material deviation occurs.

## 8 Responsibility of subsidiary audit committees

The Committee shall :

- (a) review the composition, powers, duties and responsibilities of any Audit 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 chairman or other members of such subsidiary committees.

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<sup>1</sup> 'Material deviations' shall refer to lessening or diminishing of responsibilities contained in the HSBC Group Core Terms of Reference. For the avoidance of doubt: (i) enhancements or additions to the Bank's Terms of Reference, including additions required under local rule, regulation or law (including the Listing Rules); and (ii) removal of optional / alternate language that is not relevant to the Bank (specifically due to the fact that the Bank is not a Principal Subsidiary; or has independent non-executive directors), do not need to be escalated for approval.

## **9 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 financing reporting and internal control functions.

## **10 External advisers**

The Committee may retain special counsel, advisers, experts, or other consultants to consider from time to time any matters which the Committee believes are required of it in keeping 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 Secretary to the Committee, who shall be responsible, on behalf of the Committee, for the contractual arrangements and payment of fees by the Bank.

## **11 Overlapping responsibilities**

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 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.

## **12 Publication of terms of reference**

The terms of reference of the Committee are published on the websites of the Stock Exchange and the Bank.

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