

HANG SENG BANK LIMITED

TERMS OF REFERENCE OF RISK COMMITTEE

1. Purpose

The Board of Hang Seng Bank Limited (**the “Bank”**) has delegated responsibility to the Risk Committee (**the “Committee”**) and provided it with sufficient resources for the oversight of risk-related matters and the enterprise risks impacting the Bank and its subsidiaries (**“HASE Group”**), risk governance and culture-related matters.

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 Risk 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, or risk management expertise. When appointing Directors to the Committee, the Board shall have regard to the Committee collectively to have appropriate technical expertise and experience in risk disciplines 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.

3.2 The Committee shall meet separately with the CRCO, Head of Audit, or equivalent, and the external auditor 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 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 Risk-related matters

- 5.1.1 To oversee and advise the Board on risk related matters, comprising both financial (including capital and liquidity, retail and wholesale credit risk, strategic risk, and market risk) and non-financial risks (including resilience risk (incorporating information technology, cyber security and third party risk), environmental, social and governance risk (incorporating climate risk), financial crime and fraud risk, regulatory compliance risk, people risk, legal risk, model risk, and financial reporting and tax risk).
- 5.1.2 To review and provide independent challenge on risk management reports, including the Bank's enterprise risk reports to:
- (a) enable the Committee to assess the risk profile of the Bank and how the risks arising from the Bank's businesses are controlled, monitored and mitigated by the Management;
 - (b) provide clear 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;
 - (d) enable the Committee to provide additional assurance as the Board may require regarding the reliability of risk information submitted to it; and
 - (e) enable the Committee to assess the Bank's framework of controls and procedures designed to identify areas where the Bank may become exposed, and through that exposure the financial system more broadly may be exposed, to financial crime or system abuse.
- 5.1.3 To require regular reports from the Management which :
- (a) enable the Committee to assess the risks involved in HASE Group's business and how they are controlled and monitored by the Management;

- (b) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of HASE Group's vulnerability to hitherto unknown or unidentified risks; and
- (c) enable the Committee to assess culture and changes thereof over time.

5.2 Risk appetite

- 5.2.1 To satisfy itself that risk appetite aligns with all aspects of HASE Group's strategy (including technology strategy and climate strategy).
- 5.2.2 To advise the Board on risk appetite and risk tolerance related matters.
- 5.2.3 To review and recommend the Bank's Risk Appetite Framework, on an annual basis, to the Board for approval.
- 5.2.4 To receive reports and draw independent external advice, where appropriate, to satisfy itself that the Bank's approach to the determination of its risk appetite is in line with regulatory requirements.
- 5.2.5 To review and recommend material regulatory submissions to the Board for approval, including the Bank's Internal Capital Adequacy Assessment Process, the Internal Liquidity Assessment Process, satisfying itself with regards to the completeness of the submissions and their consistency with the principles of the Bank's Risk Appetite.
- 5.2.6 To consider and if appropriate, advise the Board on the risks associated with proposed material acquisitions/disposals, focusing in particular the resulting implications for the risk appetite and tolerance of the Bank.
- 5.2.7 To review and advise the Board on the effective management of risks relating to the Bank's Operational and IT Resilience including risks relating to the execution of the technology aspects of the approved HSBC Group's or Bank's strategy, cyber security and serious, large scale, organised crime relating to information security.
- 5.2.8 To review and advise the Board and/or the Remuneration Committee on alignment of remuneration with risk appetite and conduct.

5.3 Stress testing

- 5.3.1 To review and satisfy itself that the Bank's stress testing framework, governance and related internal controls are robust.
- 5.3.2 To review, challenge and where appropriate approve the key assumptions, vulnerabilities and scenario themes identified and expanded metrics to be used in both internal and regulatory Bank-wide stress tests and regulatory submissions.
- 5.3.3 To review and approve final Bank-wide internal and regulatory Stress Tests, including submissions to The Hong Kong Monetary Authority or any other regulatory authorities.

5.4 Enterprise risk management framework and internal control systems

- 5.4.1 To review the Bank's risk management framework annually.
- 5.4.2 To oversee implementation of risk data aggregation and risk reporting principles and review and approve the Bank's risk data aggregation and risk reporting framework.
- 5.4.3 To review how effectively the Management is embedding and maintaining effective risk management and control systems and culture to foster compliance with HSBC Group and the Bank's policies and compliance requirements. In carrying out its oversight role, the Committee will:
 - 5.4.3.1 consider any material findings from regulators relating to risk governance, conduct of business, risk assessment or management processes;
 - 5.4.3.2 review the Bank's controls relating to compliance risks and satisfy itself that they are adequate and that the Bank is maintaining an appropriate relationship with its regulators;
 - 5.4.3.3 consider risk management reports;
 - 5.4.3.4 receive Internal Audit reports relating to weaknesses in risk management and control systems; and
 - 5.4.3.5 report to the Board on the effectiveness of risk management.

5.5 Culture

- 5.5.1 To advise and assist the Board's review of the effectiveness of culture enhancement initiatives so as to assess culture and changes thereof over time. In particular the Committee shall:
 - (a) at least annually, review, assess and approve the adequacy of the statement which sets out culture and behavioural standards;
 - (b) satisfy itself that the statement which sets out culture and behavioural standards is translated into policies and procedures, including, but not limited to, staff recruitment, training and incentive systems; and
 - (c) receive results from relevant assessment and feedback mechanisms at appropriate intervals (at least annually) for monitoring adherence to culture and behavioural standards.
- 5.5.2 To seek to embed and maintain throughout HASE Group a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.

5.6 CRCO and Risk Management Function

- 5.6.1 To monitor the effectiveness and independence of the CRCO and to review the composition and effectiveness of the Risk and Compliance function including that it is of sufficient stature, independent of the business and adequately resourced (qualifications, experience and training of staff).

5.6.2 The Committee shall ensure the CRCO:

5.6.2.1 participates in the risk and compliance management and oversight on an enterprise-wide basis;

5.6.2.2 is satisfied that risk owners in the business lines are aware of, and aligned with, the Bank's risk appetite;

5.6.2.3 has direct access to the Chairman of the Committee;

5.6.2.4 reports to the Committee, alongside the internal reporting line to the Chief Executive; and

5.6.2.5 is independent from individual business units.

5.6.3 To recommend to the Board the appointment or removal of the CRCO.

5.7 Internal audit

5.7.1 To review reports from Internal Audit that pertain to the purpose and the areas of responsibility of the Committee, including the Internal Audit annual work plan.

5.7.2 To respond to other Internal Audit matters referred to it by the Audit Committee.

5.7.3 To ensure that the Audit Committee is advised of the Committee's work in relation to Internal Audit reports and, in particular, any shortcomings perceived in the scope or adequacy of the work of Internal Audit.

5.8 External auditors

To review and track remediation of any issue raised by the external auditor in respect of the audit of the Bank's annual report and accounts (and the Management's response), or local equivalent, which relates to the management of risk or internal control systems (other than internal controls over financial reporting) relevant to the purpose and the areas of responsibility of the Committee.

5.9 Annual report and accounts (or local equivalent)

5.9.1 Where applicable, to review and endorse the content of the Risk Committee report in the annual report and accounts. In recommending to the Risk Committee report to the Board, the Committee shall focus on the following:

5.9.1.1 the Bank's risk disclosures, including the articulation of the Bank's strategy within a risk management context, including inherent risks to which the strategy exposes the Bank, the associated risk appetite and tolerance and how actual risk appetite is assessed over time;

5.9.1.2 forward looking information indicating the expected impact of potential risks facing the Bank; and

5.9.1.3 the articulation of how the different risk areas are managed across the Bank and the role of the Committee in providing oversight.

5.9.2 To review and endorse all risk related disclosures that are contained in the annual report for submission to the Board.

5.10 Other responsibilities

To consider whether external advice on risk matters should be taken, in particular to challenge analysis undertaken and assessments made by the Committee and the Risk and Compliance function. Where it is deemed necessary, the Committee is authorised by the Board to obtain such professional external advice.

6. Operation of the Committee

6.1 Escalations

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

6.2 Reporting and half-yearly certificates

The Committee:

- 6.2.1 shall provide half-yearly certificates to HBAP Risk Committee (in the form that is consistent with that required by the Group Risk Committee);
- 6.2.2 shall take action and provide documentation or assurances as requested by HBAP Risk Committee including: providing copies of minutes, periodic certifications, adopting best practice, being forthcoming in sharing information, and interact with the HBAP Risk 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 Risk 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 Risk Committee of how the Committee has discharged its responsibilities and will make recommendations on any action(s) needed to resolve concerns or make improvements.

6.4 Material deviations from Core Terms of Reference

Material deviations¹ from HSBC Group Risk Committee Core Terms of Reference require the endorsement from HBAP Board or HBAP Risk Committee, as and when a material deviation occurs.

¹ '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.

6.5 Responsibility of subsidiary risk committees

The Committee shall :

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

6.6 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 risk management function.

6.7 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 by 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.

6.8 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.

6.9 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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