

HANG SENG BANK LIMITED

TERMS OF REFERENCE OF RISK COMMITTEE

1. Objective

1.1 The Board of Hang Seng Bank Limited (**the “Bank”**) has delegated to the Risk Committee (**the “Committee”**) oversight of risk-related matters impacting the Bank and its subsidiaries (**“HASE Group”**), including risk governance, internal control systems (other than internal controls over financial reporting) and culture-related matters.

2. Membership

2.1 The Committee (including the Chairman) shall comprise at least three members, all of whom shall be Non-executive Directors, with a majority 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 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 any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the discharge of its responsibilities.

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 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 his/her delegate from among the members).
- 4.3 The Secretary of the Committee is the Company Secretary and Head of Corporate Governance or his/her 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. Responsibilities of the Committee

Without limiting the generality of the Committee's objective, 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, including 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) assess the risk profile of the Bank and how the risks arising from the Bank's businesses are controlled, monitored and mitigated;
 - (b) 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; and
 - (d) provide such additional assurance as the Board may require regarding the reliability of risk information submitted to it.
- 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 HASE Group's strategy (including technology strategy and climate strategy) and business plans and that account has been taken of the macroeconomic and financial environment, drawing on financial stability assessments and other authoritative sources that may be relevant.
- 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 Statement at least annually to the Board for approval.
- 5.2.4 To receive reports 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 As applicable, to review and recommend the Bank's Internal Capital Adequacy Assessment Process ("**ICAAP**") to the Board for approval, and following that approval, to escalate any material issues relating to the capital component of the ICAAP to the Risk Committee of HBAP.
- 5.2.6 As applicable, to review and recommend the Bank's Internal Liquidity Adequacy Assessment Process ("**ILAAP**") to the Board for approval, and following that approval, to escalate any material issues raised during the Committee's ILAAP review, to the Risk Committee of HBAP.
- 5.2.7 To consider and advise the Board on the risks associated with proposed strategic acquisitions/disposals, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Bank.
- 5.2.8 To review and advise the Board and the Remuneration Committee on the Bank's alignment of remuneration with risk appetite.
- 5.2.9 To consider and advise the Board on the effectiveness of Management's policies for addressing risks relating to cyber security and information security.
- 5.2.10 To review and advise the Board on the effective management of risks relating to the Bank's IT and operational 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.
- 5.2.11 To provide a forward-looking perspective to the Board on financial crime risk, including oversight of matters relating to:
 - (a) financial crime risk and financial system abuse, including anti-money laundering, sanctions, terrorist financing and proliferation financing;
 - (b) controls relating to anti-bribery and corruption; and
 - (c) situations where the Bank may become exposed to financial crime and systems abuse.

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 and challenge the Management's interpretation of the scenario(s) prescribed by the regulator, including areas of judgement.
- 5.3.3 To review and challenge the results of, and supporting information for, enterprise-wide stress tests presented by the Management.
- 5.3.4 To review and approve, or recommend for Board approval, the Bank's final stress testing submissions to regulatory authorities.

5.4 Enterprise risk management framework and internal control systems

- 5.4.1 To annually review the Bank's enterprise risk management framework and satisfy itself that it is operating effectively.
- 5.4.2 To review the effectiveness of internal control systems (other than internal controls over financial reporting).
- 5.4.3 To review how effectively the Management is embedding and maintaining an effective risk management culture and a strong internal control environment designed to foster compliance with HSBC Group and the Bank's policies and regulatory compliance requirements.
- 5.4.4 In carrying out its oversight role, the Committee will consider any material findings from regulators relating to risk governance, conduct of business, risk assessment or management processes.

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 Compliance

- 5.6.1 To review the annual plan for Compliance and receive regular reports on progress against the plan and other matters relating to compliance risk and the Bank's relationship with its regulators.

5.7 CRCO and risk and compliance function

- 5.7.1 To monitor the effectiveness and independence (from the business) of the CRCO and to review the composition and effectiveness of the risk and compliance function including that it is of sufficient standing, independent of the business and adequately resourced.
- 5.7.2 To recommend to the Board the appointment or removal of the CRCO.

5.8 Internal audit

- 5.8.1 To review reports from Internal Audit that provide assurance on the adequacy of internal control processes.
- 5.8.2 To request that the Management informs the 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 such other Board committees.

5.9 External audit

- 5.9.1 To review any issue raised by the external auditor in respect of :
 - (a) the audit of the Bank's annual report and accounts (and Management's response), or local equivalent, which relates to the management of risk or internal control systems (other than internal controls over financial reporting); or
 - (b) in connection with the external auditor's observations on the Bank's (i) regulatory standing and compliance or (ii) general competitive standing.

5.10 Annual report and accounts (or local equivalent)

- 5.10.1 Where applicable, to review and endorse the content of the risk committee report, risk disclosures or statements contained in the annual report and accounts, or local equivalent, relating to internal controls (other than internal controls over financial reporting), including the assessment of principal risks facing the Bank.

6. Other responsibilities

6.1 Certificates and assurance (Escalation)

- 6.1.1 To provide half-yearly certificates to HBAP Risk Committee (in a form that is consistent with that required by the Group Risk Committee).
- 6.1.2 To 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 interacting with its Chair on a regular basis.
- 6.1.3 The Committee 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.

6.2 Annual review of terms of reference and Committee effectiveness

- 6.2.1 The Committee shall review annually its terms of reference and its own effectiveness, and recommend to the Board any necessary changes.
- 6.2.2 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.

6.3 Material deviations from Core Terms of Reference

- 6.3.1 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.

6.4 Responsibility of subsidiary risk committees

- 6.4.1 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.

6.5 Reporting to the Board

- 6.5.1 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 and internal control (other than internal controls over financial reporting) functions.

6.6 External advisers

- 6.6.1 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.

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.

6.7 Overlapping responsibilities

- 6.7.1 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.

6.8 Publication of terms of reference

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

November 2023