

HANG SENG BANK LIMITED

TERMS OF REFERENCE OF AUDIT COMMITTEE

1 Objective

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

- 1.1 the integrity of the financial statements, Pillar 3 disclosures (where relevant), 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 financial control systems.

2 Membership

- 2.1 The Committee shall comprise at least three members, all of whom shall be Non-executive Directors of the Bank with a majority (including the Chair) being Independent Non-executive Directors, or as otherwise required by local regulation.
- 2.2 The Chairman of the Committee shall be appointed by the Board from among the Independent Non-executive Directors.
- 2.3 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.
- 2.4 The Secretary of the Committee shall be the Company Secretary or his/her nominee, who shall support the Chairman and Committee members in the operation of the Committee and its meetings.
- 2.5 Members of the Committee shall be appointed subject to endorsement by the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited (“**HBAP**”).
- 2.6 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.

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 Officer 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 external auditor and with the Head of Audit 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 Chair (or his/her delegate from among the members).
- 4.3 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.
- 4.4 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 Financial reporting

- 5.1.1 To monitor and critically assess the integrity of the financial statements of the Bank and its subsidiaries, Pillar 3 disclosures (if applicable), 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 Pillar 3 disclosure policies and practices, as applicable.
- 5.1.3 To review, and report to the Board on, significant accounting judgements and adjustments.
- 5.1.4 To review going concern assumptions and any qualifications.
- 5.1.5 To review, as applicable, compliance with accounting standards, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Pillar 3 disclosure requirements and other legal and regulatory requirements relating to financial reporting.

- 5.1.6 To review disclosure that describes the work of the Committee.
- 5.1.7 To review the Annual Operating Plan and Capital Plan.
- 5.1.8 To review comment letters from appropriate regulatory authorities which may have a significant impact on financial reporting and other important aspects of the Bank's business and operations.
- 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 be, or may need to be, highlighted in the annual report and accounts and must give due consideration to any matters that have been raised by the Chief Financial Officer, Chief Risk Officer, Head of Audit, Company Secretary and General Counsel or the external auditor.
- 5.1.11 To review the adequacy of resources and expertise as well as succession planning, training programmes and budget of the Bank's accounting and financial reporting function.
- 5.1.12 To report to the Board on the Bank's compliance with all applicable corporate governance codes or standards in relation to financial reporting.
- 5.1.13 To advise the Board that 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.
- 5.1.14 To provide assurances to the Board regarding compliance by the Bank with relevant regulations relating to financial reporting.
- 5.1.15 To report alleged frauds or misrepresentation of assets to the Bank's Risk Committee.

5.2 Internal audit

- 5.2.1 To review and, if appropriate, approve the Internal Audit Charter.
- 5.2.2 To oversee the work of Internal Audit and recommend to the Board the appointment and removal of the Head of Audit.
- 5.2.3 To monitor and assess the effectiveness, performance, resourcing, independence and standing of the Internal Audit function.
- 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 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.
- 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 HSBC Group policy 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 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). Any material risk or internal control issues (other than issues relating to internal controls over financial reporting) 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 assumption and viability statement;
 - (f) compliance with accounting standards, stock exchange 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 external auditor.

5.4 Internal controls

- 5.4.1 To review the effectiveness of the Bank's and its subsidiaries' internal financial controls (the systems established to identify, assess, manage and monitor financial risks).
- 5.4.2 To consider any findings of major investigations of internal controls over financial reporting matters, the Management's response and the conclusions of any testing carried out by the Head of Audit or external auditor.
- 5.4.3 To review all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (including any annual report, and other reports as required by applicable laws and regulations, from the Bank's Chief Executive and Chief Financial Officer (or equivalent) that such persons have disclosed to the Committee and to the external auditor) which could adversely affect the Bank's ability to record and report financial data and any fraud, whether material or not, that involves the Management or other employees who have a significant role in the Bank's internal financial controls.
- 5.4.4 To review, and, if appropriate, endorse the content of the statement relating to internal financial controls in the annual report, or its equivalent, for submission to the Board.

5.5 Whistleblowing

- 5.5.1 To oversee the implementation of the Group's policies and procedures for capturing and responding to whistleblower concerns; (b) oversee the implementation of the Group's 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 arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.
- 5.5.2 To annually review the operation and effectiveness of the arrangements by which staff may, in confidence, raise concerns.

6. Other responsibilities

6.1 Certificates and assurance (Escalation)

- 6.1.1 To provide half-yearly certificates to HBAP Audit Committee (in a form that is consistent with that required by the Group Audit Committee).

6.1.2 To 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 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 Audit 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 Audit Committee 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 deviations from the Group Core Terms of Reference require the endorsement from HBAP Audit Committee.

6.3.2 Notwithstanding the paragraph above, any deviation from the Group Core Terms of Reference that is a consequence of statutory or regulatory requirements taking precedence over the Group Core Terms of Reference, needs to be notified to the Board of the Bank and HBAP Audit Committee.

6.4 Responsibility of subsidiary Audit Committees

6.4.1 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 chair 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 Company's finance and audit 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 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.

6.7 Overlapping responsibilities

- 6.7.1 Where there is a perceived overlap of responsibilities between the Audit 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.

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