

The Hongkong and Shanghai Banking Corporation
Limited – Sri Lanka Branch

Disclosures on Corporate Governance 2023

Independent Assurance Report

To the Branch Management of Hongkong & Shanghai banking corporation Limited Sri Lanka Branch

Report on the Branch Management's Statement on Internal Control

We were engaged by the Branch Management of Hongkong & Shanghai Banking Corporation Limited - Sri Lanka ("the Branch") to provide assurance on the Management Statement on Internal Control over Financial Reporting ("the Statement") for the year ended 31 December 2023.

Management's responsibility

The Branch is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by The Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for Branch Management and appropriately reflects the process the Branch Management have adopted in reviewing the design and effectiveness of the internal control of the branch.



We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by The Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Branch Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Branch and appropriately reflects the process the Branch has adopted in reviewing the system of Internal Control over Financial Reporting for the Branch.

To achieve this objective, appropriate evidence had been obtained by performing the following procedures:

- (a) Enquired from the Branch and obtained an understanding of the process defined by the branch management for their review of the design and effectiveness of internal control and compared their understanding to the statement made by the Branch.
- (b) Reviewed the documentation prepared by the Branch to support their Statement.
- (c) Related the Statement made by the Branch to the auditor's knowledge of the Branch obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the Executive Committee and of relevant other Management Committees of the Branch.
- (e) Considered whether the Management Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (f) Obtained written representations from the Branch on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- (g) Discussed with the Branch whether steps have been taken by them to determine what process it has applied to deal with material internal control aspects of any significant problems.

- (h) Obtained an understanding from the Branch as to whether there is an ongoing process for identifying, evaluating and managing the significant risks faced by the branch, whether it has been in place for the year under review, whether it is regularly reviewed and whether the explanations are consistent with auditor's understanding.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Branch's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the financial statements will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Branch, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement is inconsistent with our understanding of the process the Branch Management has adopted in the review of the design and effectiveness of Internal Control over Financial Reporting of the Branch.



COLOMBO

CHARTERED ACCOUNTANTS

31 May 2024

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
HEAD OFFICE STATEMENT ON CONTROLS

RESPONSIBILITY

The Hong Kong & Shanghai Banking Corporation Limited – Sri Lanka Branch (‘HSBC Sri Lanka’) is registered in Sri Lanka as a branch of The Hong Kong and Shanghai Banking Corporation Limited (‘the Company’), a company incorporated in Hong Kong, and as such follows all policies and procedures laid out by the Company. HSBC Holdings plc, a company incorporated in England, is the ultimate holding company.

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), and the subsequent circular 02/17/550/002/002 dated 3rd January 2011, the Head of the Office supervising HSBC Sri Lanka, namely The Hongkong & Shanghai Banking Corporation Limited, presents this Report on Internal Control.

The Board of HongKong and Shanghai Banking Corporation limited (the “Head Office”) and the Risk Committee, oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the group and mitigating actions planned and taken at HSBC Sri Lanka (‘the Bank’). This system is designed to manage the Bank’s key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

HSBC Group through its Risk Management Framework (“RMF”) has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines. HSBC Sri Lanka has regularly reviewed the process and further considered the Guidance for Directors of Banks on the Directors’ Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka taking into account principles for the assessment of internal control systems as given in that guidance.

The Head Office is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

The Chief Executive Officer (“CEO”) and the Executive Committee (“EXCO”) of HSBC Sri Lanka, together assist the Head Office in the implementation of policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY PROCESSES ADOPTED AND APPLIED IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

Various committees have been established to ensure the effectiveness of the Bank’s daily operations and that the Bank’s operations are in accordance with the corporate objectives, strategies and the annual operating plan as well as the policies and business directions that have been approved.

All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.

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The primary role of the Global Internal Audit function as the third line of defence is to help the Board and management protect the assets, reputation and sustainability of the Group. Global Internal Audit does this by providing independent and objective assurance on the design and operating effectiveness of the Group's governance, risk management and control framework and processes, prioritising the greatest areas of risk.

Responsibilities of Group Audit Committee ('GAC') include:

- monitoring and assessing the integrity of the financial statements, formal announcements, and regulatory information in relation to the Group's financial performance, as well as significant accounting judgements.
- reviewing the effectiveness of, and ensuring that management has appropriate internal controls over, financial reporting.
- reviewing management's arrangements for compliance with prudential regulatory financial reporting.
- reviewing and monitoring the relationship with the external auditor and overseeing its appointment, remuneration and independence.
- overseeing the Group's policies, procedures and arrangements for capturing and responding to whistleblower concerns and ensuring they are operating effectively and
- overseeing the work of Global Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.

Local Senior Management ensures compliance with policies and procedures and where there has been a breakdown in internal controls, or breach of authority, the CEO is advised in a timely manner. Additionally, such issues are escalated and tabled at the monthly Risk Management Meeting ("RMM"). Where the CEO deems the issue material, it is reported up the functional and management lines to Regional Functions and Global Internal Audit.

Global Internal Audit – Sri Lanka & Maldives is primarily responsible to:

- Provide independent and objective assurance on the design and operating effectiveness of the governance, risk management and control framework and processes, prioritizing the greatest areas of risk.
- Implement the approved Audit Plan, including any regulatory or other special tasks or projects requested by regulators and local Risk Committees;
- Implement risk-based Audit coverage with global audit team support, using a combination of business and functional audits of processes and controls, risk management frameworks and major change initiatives, as well as regulatory audits, investigations, and special reviews.

The comments made by the external auditors and Global Internal Audit in connection with the internal control system in the financial year to 31st December 2022 were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the external auditors and Global Internal Audit in the financial year to 31st December 2023 in connection with the internal control system have been addressed and in some instances are in the process of being actioned. The Management is of the opinion that these recommendations are intended to further improve the internal controls and they do not in any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the financial statements for external use are true and fair and comply with Sri Lanka Accounting Standards (SLFRS & LKAS) and the regulatory requirements of the Central Bank of Sri Lanka (CBSL).

CONFIRMATION

Based on the above, the Regional Finance in Head Office confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
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HEAD OFFICE STATEMENT ON CONTROLS

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditor has reviewed the above Head Office Statement on Internal Control of the Bank for the year ended 31st December 2023 and reported to the Bank that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Management in the review of the design and effectiveness of the internal control system over financial reporting of the Bank.

By order of HSBC International,
The signatories for the bank

[Signed]
Surendra Rosha
Co-Chief Executive, Asia Pacific
The Hongkong and Shanghai Banking Corporation Limited

[Signed]
Mark Surgenor
Chief Executive Officer Sri Lanka and Maldives

Date: 31 May 2024

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
STATEMENT OF COMPLIANCE

The Hongkong & Shanghai Banking Corporation Limited – Sri Lanka Branch ('HSBC Sri Lanka') is registered in Sri Lanka as a branch of The Hongkong and Shanghai Banking Corporation Limited ('the Company'), a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in London, is the ultimate holding company.

HSBC Risk Management Framework (RMF) describes HSBC's approach to managing risk and is applicable to all employees. It is supplemented by specialist principles, risk frameworks, and guidance, such as the Purpose-led Conduct Approach, which are designed to capture how the Bank's risk management arrangements impact its customers and the financial markets in which it operates. All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. The RMF is underpinned by the Bank's risk culture and reinforced by HSBC values and conduct outcomes. Within the RMF, the three Lines of Defense (LoD) is an activity-based model and delineates accountabilities and responsibilities for risk management and the control environment within each LoD. The model applies to all individuals and all risk types and supports the delivery of conduct outcomes and a positive risk culture. Decision making aligns with the roles and responsibilities across the three LoD model.

The First Line of Defence has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. It is the responsibility of the First LoD to assess whether an issue is likely to have relevance to another part of the business, and therefore what level of read across action is required, and whether when looked at in aggregate the level of consolidated risks is greater than on an individual basis.

The First LoD includes four key roles: (1) Risk Owners who are accountable for identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite set by the HSBC Board; (2) Control Owners who are accountable for operating controls on behalf of Risk Owners and for the control monitoring processes to assess and report control effectiveness. They work with the Risk Owners to understand and manage the risks; (3) Business Service Owners who are assigned by Global Businesses and are responsible for overseeing and managing each of HSBC's prioritized Business Services end-to-end, including the risk, control effectiveness and resilience of that service; and (4) Chief Control Officers (CCO) who drive effective governance and management of non-financial risks in the First LoD. They work closely with Risk Owners and Control Owners to ensure operational risk management activities are effectively executed.

The Second Line of Defence provides subject matter expertise, advice, guidance and review and challenge of First LoD activities to help ensure risk management decisions and actions are appropriate, within risk appetite, and support the delivery of conduct outcomes.

The Second LoD is independent of the risk-taking activities undertaken by the First LoD and consists of four key roles: (1) Chief Risk and Compliance Officers (CRCO) / Chief Risk Officer (CRO) who are accountable for the holistic risk oversight on an enterprise-wide basis for areas within their remit, including the impact on conduct outcomes and the provision of advice, guidance and challenge to the First LoD for key business decisions; (2) Risk Stewards who sit within the Global Functions and are subject matter experts who set policies and oversee the First LoD activities by risk type. They are accountable for setting policy and control standards to manage risks, providing advice and guidance to support these policies, and challenging the First LoD to ensure it is managing risk effectively; (3) the Operational and Resilience Risk (ORR) function, which is a combined Risk Stewardship and Oversight function whose main responsibility is to ensure governance and management of Operational Risk, Resilience Risk and Operational Resilience through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end-to-end processes, risks and controls; and (4) Second LoD Assurance teams who are accountable for developing a proportionate, risk-based

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assurance approach for their risk type to independently assess whether controls within the First LoD are being managed effectively and within risk appetite. .

The Third Line of Defence is Internal Audit which provides independent assurance to management and the non-executive Risk and Audit Committees as to whether risk management, governance and internal control processes are designed and operating effectively.

It should also be noted that the RMF is supported by Group Functional Instruction policy on ‘Response to Regulatory Changes’ which reflects the key policy outcomes, roles, and responsibilities within the First and Second LoDs and minimum control standards to manage the Bank’s response to changes to all Rules, Regulations and Laws affecting HSBC, whether they relate to any Financial or Non-Financial risks.

In this regard, HSBC policies and procedures are maintained to support the management of risk and are a critical component in making sure that the organization controls its risks effectively and are in line with its risk appetite. Policies are at the next level down from the principles including the Global Principles, the RMF and Purpose-Led Conduct Approach. Policies are set at the global level and are owned by the Global Risk Stewards and are used to outline how specific risks are managed. They define the minimum risk management and control requirements that must be adopted throughout the organisation to ensure consistency and appropriate management of each risk in the taxonomy. Policies must comply with all relevant principles. Local policies are only required, to supplement a global policy, where laws, regulations, or market practice applicable to a particular market/region, or entity, either prevent it from complying with a requirement in the global policy or require it to do more than is currently required by the global policy. Procedures are typically set at the global level, in which case they are owned by Global Risk Owners or Control Owners although they can be set at the local level, owned by Local Risk Owners or Control Owners, where there is no common global standard. In both cases, they outline, at a high level, how specific risk management processes and controls (informed by the minimum requirements from relevant policies) are to be implemented into business or function activities to effectively manage risks. Procedures must comply with all relevant principles and policies. Compliance with all policies and procedures is mandatory and applies to all entities, businesses, and functions within the organization.

HSBC recognizes that the Bank must comply with the spirit and letter of all laws, rules, standards, codes of conduct, regulatory guidance, and regulations issued by regulators, government bodies, global organizations or equivalent agencies that have the power to impose legal or regulatory obligations on Group Entities. Failure to comply with rules, regulations and laws would lead to poor customer and conduct outcomes and puts HSBC at risk of regulatory enforcement or supervisory action, lawsuits, and reputational damage. Accountability for ensuring compliance with rules, regulations and laws lies with the legal entity, market, or Group level CEO, as the executive level Risk Owner.

Risk Owners are accountable for determining and implementing necessary changes to their operations as a result of changes to rules, regulations and laws, and should ensure that relevant procedures are updated to reflect changes, as well as ensure appropriate controls have been implemented. Risk Owners need to engage with the relevant Risk Stewards if they require guidance. Risk Stewards are accountable for identifying and understanding the rules, regulations and laws that affect their risks. In addition, each Risk Steward is accountable for monitoring for changes to those rules, regulations and laws that impact their risk type, assessing the impact on their specific risk types, updating their policies as required, and communicating these changes to Risk Owners in a timely manner.

Accordingly, HSBC Sri Lanka has effective processes in place to ensure compliance with all applicable laws and regulations pertaining to the banking industry in Sri Lanka, and the Central Bank of Sri Lanka directions and guidelines. Additionally, the Bank is bound to comply with the applicable directions of

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the Company. The Banking Act Direction No. 11 of 2007 and its amendments (the Direction) on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Monetary Board of the Central Bank of Sri Lanka under section 46 (1) of the Banking Act No. 30 of 1988 provides the mandatory requirements set out in section 3 of the said Direction that should be complied with by Licensed Commercial Banks. All branches of foreign banks are requested to adhere to sections 3 (8) and 3 (9) of the said Direction and HSBC Sri Lanka complies with the same on Corporate Governance

Statement of Compliance

HSBC Sri Lanka complies with all prudential requirements, regulations, and laws and there are no material non compliances. Issues and gaps requiring remediation are managed as part of the controls management and assurance process, with action plans developed to address controls deficiencies and/or inefficiencies to improve the operating effectiveness of the current control environment in a timely manner.

[Signed]

Surendra Rosha

Co-Chief Executive, Asia Pacific

The Hongkong and Shanghai Banking Corporation Limited

[Signed]

Mark Surgenor

Chief Executive Officer, HSBC Sri Lanka and Maldives

Date: 31 May 2024

**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
DISCLOSURES ON CORPORATE GOVERNANCE**

1 DETAILS OF ACCOMODATION GRANTED AS AT 31 DECEMBER 2023

1.1 Total accommodation granted to each category of related parties (in LKR ‘000)

Bank’s subsidiary companies	N/A
Bank’s associate companies	N/A
Directors of the bank	N/A
Bank’s key management personnel	216,602
A close relation of any of the bank’s directors or key management personnel	29,534
A shareholder owning a material interest in the bank	N/A
A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest	N/A

1.2 Total accommodation granted to each category of related parties as a percentage of the bank’s regulatory capital

Bank’s subsidiary companies	N/A
Bank’s associate companies	N/A
Directors of the bank	N/A
Bank’s key management personnel	0.242%
A close relation of any of the bank’s directors or key management personnel	0.033%
A shareholder owning a material interest in the bank	N/A
A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest	N/A

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
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DISCLOSURES ON CORPORATE GOVERNANCE

2 TRANSACTIONS OF THE BANK WITH ITS KEY MANAGEMENT PERSONNEL

	LKR '000
Aggregate remuneration paid for the year ended 31 December 2023	777,481
Total accommodation granted as at 31 December 2023	216,602
Total deposits as at 31 December 2023	26,429
Total investments made as at 31 December 2023	NIL

3 STATEMENT OF REGULATORY AND SUPERVISORY CONCERNS

We confirm that to the best of our knowledge that The Hong Kong and Shanghai Banking Corporation Limited Sri Lanka have not encountered any supervisory concerns on lapses in bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public.

[Signed]

Mark Surgenor

Chief Executive Officer

HSBC Sri Lanka and Maldives

[Signed]

Angelo Pillai

Chief Financial Officer

HSBC Sri Lanka and Maldives

Date: 31 May 2024