

**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED  
MALDIVES BRANCH  
CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

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The HongKong & Shanghai Banking Corporation Limited – Maldives Branch (‘HSBC Male’) is registered in Maldives as a branch of The HongKong and Shanghai Banking Corporation Limited (‘the Company’), a company incorporated in HongKong. HSBC Holdings plc, a company incorporated in England, is the ultimate holding company.

The purpose of this report is to meet the requirements set out in section 19 (b) of the 2020/R-59 Regulation on Corporate Governance for Banks, Insurance Companies and Finance Companies. As per the same the Bank is required to submit a Corporate Governance report detailing the status of compliance to the legislative and regulatory requirements, risk management and internal control systems governing the Bank.

HSBC Maldives has effective processes in place to ensure compliance with all applicable laws and regulations pertaining to the banking industry in Maldives, which includes maintaining comprehensive policies and procedures which covers the guidelines to be followed by the entity in identifying, monitoring and analyzing local Rules, Regulations and Laws under compliance risk stewardship. (i.e. This relates to all laws, rules, standards, codes of conduct, regulatory guidance, and regulations issued by rule making bodies. The rule making bodies include regulators, government bodies, global organizations or equivalent agencies that have the power to impose legal or regulatory obligations on HSBC legal entities and businesses).

The Company has further adopted an integrated Operational Risk and Internal Control management framework, referred to as the Three Lines of Defense model. The model ensures it achieves its commercial aims while meeting regulatory and legal requirements and its responsibilities to shareholders, customers and staff.

**The First Line of Defense**, comprising of a majority of employees, identifies the risks and ensures that the right controls are in place to prevent, manage, and reduce the risks including the delivery of fair conduct outcomes.

The Risk Owners in the Lines of Businesses are accountable for setting risk appetite, identifying, owning, and managing non-financial risks for their Business in line with appetite, i.e. within the limits set out by the HSBC Group. The Control Owners, who may sit within a Lines of Business or Function within HSBC, monitor, assess and manage the processes, activities, or systems to ensure that they are operating effectively. They work with the Risk Owners to understand and manage the risks. The Chief Control Officers (CCO), who may sit within a Lines of Business or Functions, drive effective governance and management of non-financial risks for their organization area. They work closely with Risk Owners and Control Owners to ensure operational risk management activities are effectively executed.

**The Second Line of Defense** consisting of “Chief Risk Officers”, “Risk Stewards” and “Operational Risk” functions, provide review and challenge of First Line of Defense activities to help ensure risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second Line of Defense is independent of the day to day commercial risk-taking activities undertaken by the First Line of Defense. The Chief Risk Officers oversee the risk management for areas within their remit. The Risk Stewards, sitting within the Functions, perform the specialist role in the review and challenge of, and subject matter expert for, the First line of Defense activities for a given risk type. The Operational Risk function provides advice and guidance on the use of the Risk Management Framework. They also challenge the effectiveness of the framework in use both in the first and second lines of defense.

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**The Third Line of Defense** is Internal Audit which independently assures that the HSBC is managing its non-financial risks effectively.

Within the above, the Compliance function is a Second line of defense function, responsible for reviewing and challenging the activities of the First Line of Defense to ensure that they effectively manage as Risk Owners the risks inherent in or arising from the conduct of their activities and for which they are responsible. Compliance function is a Risk Steward for a number of non-financial risks in accordance with HSBC Group's risk framework including Financial Crime and Regulatory Compliance Risks.

Stewardship of Financial Crime Risks is focused on:

Countering financial crime by identifying, analyzing, and investigating Financial Crime risk to support informed risk management and effective information sharing with internal and external stakeholders grounded in advanced analytics and technology.

Working with the Lines of Business to set policy and provide effective oversight of the operational effectiveness of critical policies and systems covering financial crime that ensure that the country exposure to financial crime and related reputational risk is managed, in a commercially sensitive and practical manner.

Articulating country risk appetite and policies with respect to money laundering, sanctions, internal and external fraud, tax evasion, terrorist financing, bribery and corruption.

Ensuring timely reporting and disclosure of relevant information both to regulators and within the Group in relation to financial crime matters.

Stewardship of Regulatory Compliance Risks is focused on:

Understanding the regulatory landscape and working with the Lines of Business to help them identify and manage their regulatory compliance risks. Providing independent and objective oversight and challenge, and promote a compliance-orientated culture, supporting the business in delivering fair outcomes for customers and achieving HSBC's strategic objectives.

Setting the policies and standards which cover HSBC's regulatory requirements, and support the management of Conduct and Reputational Risk issues.

Understanding the regulatory change agenda and ensure that the businesses understand the implications.

Further the Regulatory Conduct team will:

- Oversee delivery of key compliance risk related regulatory commitments
- Oversee and support continued improvement and embedding of the Group's Whistleblowing arrangements and Conduct framework.

The Bank will continue to focus on taking necessary actions in order to adapt to a continually changing world. Compliance will play a critical role in supporting, challenging and advising the Lines of Business. Compliance will respond to industry and HSBC Group strategic changes by evolving as a function for the future based on four key principles:

- Technology and Advanced Capabilities
- Simplification
- Risk Management
- Navigating the Regulatory Landscape

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In addition to the above, the Compliance Assurance function is responsible for carrying out monitoring activities to provide a reasonable assurance to the Lines of Business that their First Line of Defense is sound and sufficient. This is being established through two main activities:

- By testing the adequacy of existing FC and RC controls in both the First Line and Second Line of Defense
- By identifying any gaps in the control environment and advising both the Lines of Defense to develop or maintain controls to mitigate any potential risks.

### **COMPLIANCE STATEMENT**

We confirm that HSBC Male is effectively operating within the regulatory and legislative framework and we do not have any material non-compliance with legislative and regulatory requirements and internal policies and procedures.

### **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 defense model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defense 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 defense (the risk owners) on effective risk management.

The primary role of the Global Internal Audit function as the third line of defense 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, prioritizing the greatest areas of risk.

### **CONFIRMATION**

Based on the above, we confirm 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 International Financial Reporting Standards (IFRS) and regulatory requirements of the Maldives Monetary Authority (MMA).

[Signed]

**Mark Surgenor**

Chief Executive Officer, HSBC Sri Lanka and Maldives

Date: 28 April 2023