

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
MALDIVES BRANCH
CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

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. Accordingly Corporate Governance report for HSBC Male’ detailing the status of compliance to the applicable legislative and regulatory requirements, and statement on risk management and internal control systems governing the Bank given herewith.

COMPLIANCE POLICY AND FRAMEWORK OF THE BANK

The 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 in. All employees are responsible for the management of risk, with the ultimate accountability residing with the Board*.

This framework 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.

*** Executive responsibilities of HSBC Maldives**

The ultimate responsibility of HSBC Maldives’s strategic objectives, governance framework and organizational structure, and financial soundness including the responsibility for key personal decisions, risk management and compliance obligations are carried out and is the responsibility of the Executive Committee (EXCO) of HSBC Maldives and Sri Lanka headed by the Chief Executive Officer Sri Lanka and Maldives. The Chief Executive Officer, Sri Lanka and Maldives, reports to Co-Chief Executive Officer, Asia Pacific at a functional and entity level and holds the highest executive position governing Maldives.

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

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manage the risks. The Chief Control Officers (CCO), who may sit within a Lines of Business or Functions, drive effective governance and management of nonfinancial 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.

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.

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. With failure to comply with rules, regulations and laws leads 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, by updating their procedures and ensuring 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.

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Accordingly, 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).

COMPLIANCE STATEMENT

We confirm that HSBC Male is effectively operating within the regulatory and legislative framework and we are largely compliant compliance with legislative and regulatory requirements and internal policies and procedures.

The bank wish to note the below with regards to our level of compliance with the prevalent regulatory framework.

Maldives Payment System Development project (MPSD): Considering HSBC's operating model in Maldives is limited to corporate banking, several discussions were held with the MMA MPSD project team seeking dispensation from implementing all 18 APIs. In response the MMA stated that it is mandatory for all the banks to develop all 18 APIs. HSBC has completed the development of 14 API's and await MMA's concurrence to commence UAT to deploy the solution. Our stance at this juncture remains the same that we are unable to develop the rest of the 4 APIs based on HSBC's commercial operations in the Maldives.

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

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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: 29 April 2024