



AUDIT COMMITTEE TERMS OF REFERENCE

(1) CONSTITUTION

The Audit Committee is established by the Board pursuant to the Exchange Listing Rules. Its principal functions are to assist the Board in providing an independent review and monitoring of the effectiveness of the financial reporting process, internal control and risk management system of the Bank; oversee the audit process; and perform other duties and responsibilities as assigned by the Board.

The Audit Committee serves as a means to enhance Board effectiveness, accountability, transparency, and objectivity in corporate governance. This document, which has been compiled with reference to the “Code on Corporate Governance Practices” (The “Code”), represents the terms of reference of the Audit Committee delineating its membership, independence, authority, duties, and reporting responsibilities to the Board.

(2) MEMBERSHIP

The Audit Committee should comprise only non-executive directors appointed by the Board from amongst the non-executive directors of the Bank. The Committee must comprise a minimum of three members, a majority of whom should be independent non-executive directors and at least one member is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Exchange Listing Rules.

The Chairman of the Committee is vital to the success of the Audit Committee. He/She must be an independent non-executive director appointed by the full Board. To ensure exercise of independent judgment as a committee member, a former partner of the Bank’s existing external auditing firm should not be appointed as a committee member for a period of 1 year commencing on the first date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later.

Committee members would hold office for a term of three years and are eligible for reappointment by the Board. To preserve membership continuity and independence, reappointment and terms that end in different years should be arranged.

(3) INDEPENDENCE

The independent non-executive directors should be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgment as a committee member. When independent non-executive directors become aware of any dealings in which they have an interest, they should declare their interest to the Board and withdraw from related discussions.

(4) MEETINGS

The Audit Committee meets 4 times a year and from time to time as occasion necessitates review of significant audit issues. A quorum shall be two members.

The Chief Internal Auditor of the Bank assumes the role of the secretary of the Committee and during his/her absence, his/her deputy will act as the relief secretary. The Chief Internal Auditor and representatives of the external auditors shall attend all meetings of the Audit Committee. The executive directors shall also have the right of attendance.

(5) AUTHORITY

The Audit Committee is authorized by the Board to investigate any activities within its terms of reference. In order that the Committee achieves its objectives and duties effectively, it is authorized by the Board to have unrestricted access to all activities, information and personnel of the Bank to the extent necessary for the effective review of any investigation works, and seek any information it requires from any employee. The exercise of such authority should, however, be made in compliance with relevant laws and regulations, and access to e-mail, correspondence and telephone record should only be made in consultation with the Chairman of the Board or the Bank's Group Executive. All employees are directed to cooperate with any request made by the Committee directly, or through the Chief Internal Auditor.

(6) DUTIES

The duties of the Audit Committee should include at least the following areas:-

Relationship with the external auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on engagement of external auditors to supply non-audit services to ensure that the provision of such services does not impair the external auditors' independence and objectivity. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations for the steps to be taken;
- (d) to reinforce work of external and internal auditors and provide opportunities for them to meet and discuss their respective findings and/or significant matters of concern.

Review of financial information and reporting

- (e) to monitor integrity of interim and annual financial statements of the Bank before submission to the Board, focusing particularly on:-
- any changes in accounting policies and practices;
 - major judgmental areas and estimates;
 - disclosures;
 - significant audit adjustments and unadjusted audit differences;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

To achieve this, the Audit Committee should closely liaise with the Board of Directors, management, Chief Financial Officer, and the external auditors.

- (f) to consider any significant or unusual items that are, or need to be, reflected in the financial reports, with due consideration on matters that have been raised by the external auditors, internal auditors, and compliance officer of the Bank.

Oversight of the financial reporting system

- (g) to review the Bank's financial and accounting policies and practices;
- (h) to review the Bank's financial control, internal control and risk management systems to ensure they are appropriate and functioning properly;

Oversight of the internal control procedures

- (i) to appoint a suitably qualified Chief Internal Auditor of the Bank and to determine the compensation scheme;
- (j) to approve the Internal Audit Charter and the annual audit plan;
- (k) to discuss with the management the system of internal control and ensure that management has discharged its duty in implementing an effective internal control system and compliance with the applicable laws and regulations;
- (l) to assign the Chief Internal Auditor to undertake special investigation on notice of serious infringement of the Bank's policies or statutory regulations as delegated by the Board or on its own initiative, and consider major findings of the investigation and management response;
- (m) to review and monitor the effectiveness of the internal audit function, including adequacy of audit coverage, sufficiency of audit resources, appropriate standing of the audit function within the Bank, and co-ordination between the internal and external auditors;

- (n) to review audit issues raised by the Hong Kong Monetary Authority, the external auditors in their management letters and the internal auditors in the internal audit reports, and any material queries raised by the auditors to management and management's responses;
- (o) to convey any significant audit issues to the Board where deemed necessary, and ensure that the Board will provide a timely response to address the issues;
- (p) to report to the Board on matters set out in the provisions of the Code; and
- (q) to consider other topics, as defined by the Board.

(7) REPORTING

- (a) The Committee Chairman should report to the Board regularly on the works performed by the Committee during the financial year in discharging its responsibilities. These reports, which are to be incorporated into the Corporate Governance Report forming part of the annual reports, should cover the works and findings of the Committee under the following areas, as appropriate:-
 - financial and management reporting
 - internal control and risk management
 - audits
 - other duties and responsibilities set out in the Code.
- (b) Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee should make a statement explaining its recommendations and the reason(s) why the Board has taken a different view for disclosure in the Corporate Governance Report.

(8) MEETING MINUTES

Full minutes of audit committee meetings are kept by the secretary of the Audit Committee and the company secretary of the Bank. Draft version of meeting minutes are sent to all committee members for comment.

The final version approved by Chairman of the Committee is sent to all committee members and the Board keeping them informed of the Committee's activities and recommendations on a regular basis.

(9) APPROVAL

The Audit Committee is responsible for maintaining the terms of references in a current state and ensuring availability of the document to explain its role and the authority delegated to it by the Board. The terms of reference and subsequent amendments should be formally approved by the full Board before adoption.