

INTERNAL CONTROL SYSTEM AT HSBC CONTINENTAL EUROPE (SPOLKA AKCYJNA) ODDZIAŁ W POLSCE

- The internal control system in the Branch is adapted to the organizational structure of the Branch and covers all organizational units. It includes internal control mechanisms, examination of compliance of the Branch's operations with the law, internal and external regulations concerning the Branch's operations and internal audit.
- Internal control mechanisms are designed to identify, assess and control risks, take into account quantitative and qualitative assessment and take into account the impact of risks on the profitability of the Branch's operations, security of the Branch, reliability of reporting and compliance with laws and regulations. Internal control mechanisms include: the rules, limits and procedures relating to the business conducted by the Branch, which are of a controlling nature and operate as part of the Branch's operating system. Internal control mechanisms include an assessment of the functioning of all areas of the Branch, operations carried out by employees and products offered.
- The Branch separates control functions from operational functions and applies functional control (ongoing and follow-up), breakdown of duties, access control, documentation of financial and economic operations, verification of compliance with exposure limits concerning the Branch's operations, performance indicators, training. As part of division of responsibilities at individual levels of management of the Branch, it identifies areas of potential conflicts of interest in connection with the performance of duties and indicates functions requiring "dual control".
- The Branch managers are responsible for monitoring the effectiveness of internal control mechanisms and for determining the areas of the Branch's operations, operations, processes, transactions, etc. which are subject to continuous or periodic monitoring. The Branch managers are responsible for:
 - ✓ providing employees with the conditions for carrying out control tasks,
 - ✓ ensuring that the rules of the internal control system are complied with,
 - ✓ conducting regular reviews of the internal control system to ensure that they are appropriate with regard to the structure of the Branch and the Branch's environment.
- The internal control system in the Branch is adequate, effective and effective and operates on the basis of the "Three Lines of Defense" model:

"First line of Defense" is a functional control performed by employees and their line managers to ensure the correctness and effectiveness of the applicable internal procedures together with the Business Risk Control Manager (BRCM).

The Risk Owner and the BRCM are responsible for assessing high or locally significant inherent risk at least once a year and periodically all other risks.

The Control Mechanisms Owner and the BRCM Manager are responsible for conducting control assessments at least once a year and when there is a significant change in control effectiveness. In addition, the Control Mechanism Owner is responsible for preparing annual Control Monitoring Plans for risks assessed inherently, as high or locally significant.

"Second Line of Defense" includes Risk Stewards and their teams who are responsible for oversight and assessment of controls/risk management by the "First Line". The Branch Operational Risk Committee and the Operational Risk & Resilience (ORR) function at HSBC Continental Europe are responsible for overseeing and reviewing the effectiveness and appropriateness of operational risk management by business areas and functions, including monitoring key internal controls.

The Compliance Assurance Area (CCA), which includes regulatory and financial crime risks, operates as part of the "Second Line of Defense". The CCA works with the business area to support it in identifying and managing compliance risk through independent and objective oversight of the risk.

The CCO (Chief Compliance Officer) is responsible for effective oversight of compliance risk management, which is also monitored by local management and the management and oversight functions at HSBC Continental Europe.

“Third Line of Defense” is provided by Internal Audit, which assesses whether the controls carried out by “First Line of Defense” are appropriate for the identified risks and whether “Second Line of Defense” is operating effectively. The Internal Audit Committee periodically evaluates the adequacy, effectiveness and efficiency of both the Branch's overall internal control system and components thereof.