

RISK MANAGEMENT SYSTEM AT HSBC CONTINENTAL EUROPE (SPOLKA AKCYJNA) ODDZIAŁ W POLSCE

- The Risk Management System at HSBC Continental Europe (Joint Stock Company) Branch in Poland (“Branch in Poland”, “HBCE-PL”) is formalized and centralized at the HSBC Continental Europe (“HBCE”) level and operates based on the risk management structure and operating model adopted in this regard within the HSBC Group.
- The Polish branch uses and relies on HBCE standards and tools for risk management. The Branch's strategy in Poland is determined jointly with the HBCE and regional oversight and management functions.
- A key element of Poland's risk management system is the implementation and application of the Three Lines of Defense model, which takes into account the nature of the Branch's operations and functional structure. The model outlines management's duties and responsibilities in managing risks and the control environment. The First Line of Defense is the main Risk and Defense Mechanism Owner. On the other hand, the Second Line of Defense, which operates independently, oversees and verifies the activities of the First Line of Defense and serves in an advisory capacity. It should be noted that the Three Lines of Defense model is applicable to all categories of risks, not just the operational risk category.
- The First Line of Defense consists of Business Lines and operational and control units responsible not only for day-to-day operations, processes and controls, but also for ensuring that key risks are identified, mitigated and monitored according to risk appetite.
- The First Line of Defense is formed by “Risk Owners” and “Control Owners”. They are accountable for owning and managing the risks associated with their business activities, to ensure that they remain within the stated risk appetite. Risk Owners are also responsible for ensuring day-to-day controls are in place to identify, assess, control and monitor their risks.
- The Second Line of Defense mainly includes the Functions: Risk, Compliance, Finance, Human Resources, Legal, and Marketing. These functions are responsible for supervising and controlling the effectiveness of risk management and controlling the activities carried out by the First Line of Defense. Each Function monitors its area of responsibility.
- The Second Line of Defense is made up of so-called “Risk Stewards”, who perform their duties independently of the risk-laden activities of the First Line of Defense. “Risk Stewards” and their teams are part of the Risk function and other Functions, at the level of the Poland Branch or regional structures in the HBCE. They assess and provide opinions on the overall risk management activities related to their assigned area of responsibility carried out within the First Line of Defense.
- The Third Line of Defense, i.e. the Internal Audit, is responsible for providing an independent assessment of the effectiveness of HSBC's risk management and control processes carried out by the First Line of Defense and overseen by the Second Line of Defense.
- Risk oversight of the Poland Branch rests with local management, supported by the Operational Risk Committee, and HSBC Continental Europe's regional oversight and management functions including, the Risk Management Committee (“RMC”). The RMC meetings are dedicated to discussing the overall risk for HBCE, including the Branch in Poland.
- The Risk Map of the Poland Branch, along with the ongoing assessment of individual risks carried out by the Risk Stewards is included in the HBCE Risk Map.

- Risk Appetite is the level of acceptable and tolerable risk and return on capital employed in the perspective of the entire regional organization. The Risk Appetite is not formulated for the local level of the Branch in Poland. The current and projected Risk Appetite, as well as current and potential exceedances, are presented during the RMC meetings. The Risk Appetite review is performed at least once a year.